The Monthly

November 2017

Feature article:

AIM – A Decade of Achievement

by Nigel Hawkins, Hardman & Co Analyst

Company Coverage

1pm Plc
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Abzena
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In the November edition of the Hardman Monthly Newsletter, Nigel Hawkins assesses the achievements of AIM – and how it has thrived, despite a challenging financial environment, in recent years.

- AIM, which was founded in 1995, now hosts 959 stocks, currently worth over £100 billion.
- Since its founding, over £100 billion has been raised by AIM-quoted stocks – with 2006 and 2007 being its best years.
- The AIM Index has risen by 31% over the last year and by over 60% during the last five years. Impressive.
- AIM now hosts eleven companies with valuations of over £1 billion each, led by top on-line clothing retailer ASOS, currently worth *c*£5 billion.
- Liquidity on AIM has improved remarkably in recent years – Click here to read Keith Hiscock's article: Liquidity - little understood, even before MIFID II.

Last month's publications

Date	Company	Sector
2 Oct	**Sinclair Pharma (SPH):** Demand growing in target markets	Life Sciences
2 Oct	**Advanced Oncotherapy (AVO):** Technology advances & stronger	Life Sciences
3 Oct	**Scancell Holdings (SCLP):** Preparing for next clinical studies	Life Sciences
6 Oct	**ValiRx (VAL):** Progressing all the pipeline	Life Sciences
10 Oct	**Allergy Therapeutics (DNL):** Continuing to gain market share	Life Sciences
10 Oct	**City of London Investment Group (CLIG):** Q1 showing steady growth	Financials
11 Oct	**Tissue Regenix (TRX):** Dual revenue stream growth	Life Sciences
16 Oct	**Avacta (AVCT):** R&D accelerated to advance assets	Life Sciences
17 Oct	**Alliance Pharma (APH):** Kelo-cote building international sales	Life Sciences
18 Oct	**Chamberlin (CMH):** One-off cost inefficiencies lead to lower forecasts	Industrial Engineering
20 Oct	**Morses Club (MCL):** Building a profitable and sustainable franchise	Financial Services
25 Oct	**Murgitroyd (MUR):** Global growth coming through	Support Services

Source: Hardman Research

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AIM – A Decade of Achievement

Executive Summary

- AIM, which was set up in 1995, continues to prosper despite serious concerns about its future following the financial crisis of 2008/09. In short, it is now in rude health.
- Currently, 959 stocks are quoted on AIM, 43% below the record 1,694 that were quoted in 2007. As the increase in total AIM capitalisation suggests – the 2007 figure was £97.6bn v £100.2bn currently - the quality - perceived or otherwise - of AIM-quoted stocks has risen.
- The comparisons with 1995 underline how AIM has expanded; there were just 121 stocks then quoted, worth a modest £2.4bn. Importantly, too, AIM has been disproportionately skewed towards the new economy, with a substantial number of internet, technology and biotech stocks.
- Since 1995, AIM has raised c£104bn, with 2006 and 2007 being its most successful years – raising around £16bn in each of those years - compared with our estimated 2017 figure of £5.5bn. Interestingly, the majority of the money raised derives from further issues of existing AIM stocks rather than from those undertaking an IPO.
- AIM currently hosts 11 stocks with market capitalisations of over £1bn. The largest is on-line fashion business, ASOS, worth c£5bn. Fevertree Drinks, Hutchison China Meditech and Boohoo all have market capitalisations of *c*£2.5bn – all are young companies.
- Although the future for AIM looks bright, it could be disrupted by a weak economy, higher interest rates, tighter regulation, a less-friendly tax regime or even AIM-related shortcomings.

The 2008/09 Financial Crisis

Rich vein…

AIM is now 22 years old and is enjoying a rich vein of form as stock markets reach record levels. Indeed, the AIM-100 Index is now 5,184, compared with 3,950 one year ago and 3,200 at the end of October 2012. When compared with 2012, the AIM-100 Index has risen by over 60%.

AIM's resilience…

The Graph below shows the resilience of AIM's stock market performance over the last five years, especially considering all the downside factors which it has had to confront.

5- year AIM-100

Source: Eikon Thomson Reuters

It should also be recognised that, back in 2008/09, when the financial crisis was at its height, there were real doubts about AIM's ability to adjust successfully to a far less up-beat economic scenario. After all, the Government had just sunk £45.5bn of taxpayers' money into Royal Bank of Scotland, with a further c£20 billion into the ill-fated Lloyds/HBOS merger.

No bull market phenomenon…

AIM's subsequent success has proven that it is not simply a bull-market phenomenon - although its market value peak (including all AIM stocks) was in 2007 – it fell sharply as the financial crisis took hold. Once full-year figures are available for 2017, it seems virtually certain that the current year will exceed the previous 2007 peak not just in nominal terms but also in real terms.

High attrition rate…

Of course, AIM has had its share of troubles and critics, especially on the issue of insufficient due diligence. As the peak membership figures for 2006 and 2007 imply, a large number of companies have disappeared subsequently, many due to insolvency.

With so many companies quoted - 959 at September 2017 - it is hardly surprising that AIM has faced robust criticism. The long-running controversy over the insurance claims business, Quindell - now re-named Waterstone – raised several fundamental questions about AIM and especially its oversight of complex companies, of which Quindell was undoubtedly one.

Background

AIM's history dates back to the early 1990s and the decision to establish a new market whose listing requirements were considerably less onerous than those required for a full market quote. To a certain extent, it reflected an era of rapid change as new technology companies, some internet-based, emerged.

£100bn valuation threshold reached in 2017…

Figure 1 below shows how AIM has developed since 1995. By any measure, its expansion has been mightily impressive, especially post the financial crisis of 2008/09. In fact, the first nine months of this year have seen a market value for AIM stocks exceeding £100bn for the first time. Once a full-year figure is available, 2017 will be – short of a major market correction – a record year in terms of AIM market capitalisation.

Figure 1 – AIM Historic Data

Year	Companies	Market Value (£m)	New Money Raised (£m)	Further Money Raised (£m)	Total Money Raised (£m)
19/06/1995	10	82			
1995	121	2,382	71	25	97
1996	252	5,299	522	297	819
1997	308	5,665	344	350	694
1998	312	4,438	268	318	585
1999	347	13,469	334	600	934
2000	524	14,935	1,754	1,338	3,092
2001	629	11,607	593	535	1,128
2002	704	10,252	490	486	976
2003	754	18,359	1,095	1,000	2,095
2004	1,021	31,753	2,776	1,880	4,655
2005	1,399	56,619	6,461	2,481	8,942
2006	1,634	90,666	9,944	5,734	15,678
2007	1,694	97,561	6,581	9,602	16,183
2008	1,550	37,732	1,108	3,215	4,322
2009	1,293	56,632	740	4,831	5,602
2010	1,195	79,419	1,201	5,649	6,850
2011	1,143	62,213	614	3,681	4,295
2012	1,096	61,748	712	2,451	3,163
2013	1,087	75,929	1,191	2,716	3,907
2014	1,104	71,414	2,604	3,122	5,727
2015	1,044	73,077	1,240	4,216	5,456
2016	982	80,814	1,104	3,662	4,766
2017 (YTD)	959	100,238	1,225	2,766	3,990
Total			***42,972***	***60,985***	***103,957***

Source: London Stock Exchange

The comparison with the 2004 data is interesting in that the number of companies then quoted is slightly above the current figure yet AIM's total market capitalisation at that time was just a third of the existing figure.

Big 11 skew figures…

In short, this suggests that the overall quality of AIM stocks is rising. It is the case, though, that the 'Big 11' £1 billion market capitalisation stocks, and especially ASOS, seriously skew the comparison.

Estimated £5.5bn of new funding for 2017…

Although the amount of money now being raised is well below the totals for 2006 and 2007, the fact remains that, for the 2017 full-year, an estimated £5.5bn of additional funding is expected to have been secured, mostly from existing AIM-quoted companies rather than from new market entrants.

Liquidity

Trading volumes soar…

There have been long-standing concerns, especially from those considering an AIM flotation, that AIM-quoted stocks lack liquidity, particularly in respect of the smaller AIM stocks where trading levels are low. Significantly, however, trading volumes on AIM continue to rise, as comparisons with 2007 – the year before the financial crisis – indicate. Significantly, trading volumes in 2017 are expected to be over five times those of a decade ago. Figure 2 tracks the trading trends since 1995:

Figure 2 – Trading Data

Year	Turnover Value (£m)	Number of Trades	Volume of Trades (m)
1995	270	29,099	544
1996	1,944	187,975	5,529
1997	2,415	217,426	6,443
1998	1,938	215,555	6,174
1999	5,178	829,480	19,862
2000	13,010	1,970,321	35,770
2001	4,583	703,400	26,862
2002	3,154	450,215	25,028
2003	5,859	819,024	56,054
2004	15,335	1,635,785	90,876
2005	37,863	2,120,375	95,850
2006	56,608	3,449,652	129, 923
2007	72,367	4,156,569	143,703
2008	41,775	3,854,643	118,952
2009	27,987	3,762,160	164,073
2010	40,504	5,277,856	197,273
2011	47,783	7,312,198	273,773
2012	48,327	7,154,323	338,616
2013	39,597	6,425,265	490,073
2014	56,544	8,714,460	582,398
2015	41,779	7,476,748	675,361
2016	43,540	8,087,668	693,168
2017 (YTD)	50,028	8,541,625	660,892
Total	***658,390***	***83,391,732***	***4,837,200***

Source: London Stock Exchange

In fact, the issue of AIM liquidity has been carefully analysed by Hardman in recent months.

Hardman's AIM liquidity analysis…

Indeed, a major analytical insight into AIM liquidity – 'Liquidity – little understood, even before MiFID II' - was recently undertaken by Hardman's Chief Executive, Keith Hiscock. It also addressed the complex research ramifications of MiFID II, whose long-delayed implementation is now due in January 2018.

Hard copies of this Report are available from Hardman; the text is reproduced on the Hardman web-site:

http://hardmanandco.com/docs/default-source/newsletters/hardman-co-article---liquidity-little-understood-even-before-mifid-ii---october-2017.pdf

Company Distribution on AIM

90% of AIM value in £50m+ stocks…

In assessing recent trends on AIM, it is salutary to consider how market capitalisation is split between its members. Figure 3 below indicates that almost 90% of the total value of AIM stocks is accounted for by companies with a market capitalisation of over £50m.

Figure 3 – Company Size on AIM

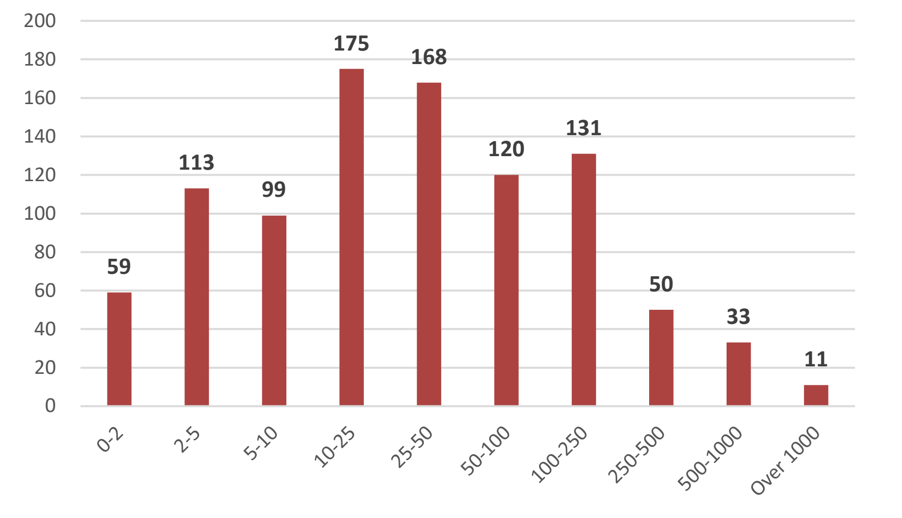
Value Range (£m)	Number of Companies	%	Equity Value (£m)	%
Over 1,000	11	1.1	22,673	22.6
500-1,000	33	3.4	22,105	22.1
250-500	50	5.2	16,535	16.5
100-250	131	13.7	20,168	20.1
50-100	120	12.5	8,663	8.6
25-50	168	17.5	6,037	6.0
10-25	175	18.2	2,843	2.8
5-10	99	10.3	759	0.8
2-5	113	11.8	378	0.4
0-2	59	6.2	78	0.1
Totals	***959***	***100***	***100,238***	***100***

Source: London Stock Exchange

AIM's £10m-£250m sweet spot…

In terms of the number of companies quoted on AIM, most are capitalised within the £10m and £250m level – essentially the AIM sweet spot; this is demonstrated by the bar chart reproduced below.

Distribution of AIM Companies by Equity Market Value



Source: London Stock Exchange

It is also significant that just 44 companies - each worth over £500m each - account for almost half of AIM's total market value. ASOS, with its *c*£5bn capitalisation, has a particularly distorting effect on these figures.

New v Further Issues

Further issue fund-raising is key driver…

Whilst many market commentaries tend to focus on stocks joining AIM, the fact remains that most of the funds raised on AIM are those that accrue from further issues: the new issue component is more modest.

In fact, AIM's strength lies particularly in facilitating the raising of additional funds by existing AIM members - this aspect of AIM is underplayed in the financial press and elsewhere. As recent data indicates, this process has seen £2.8bn of further funds being raised in the first nine months of 2017 alone.

Options and warrants dominate further funding…

Figure 4 provides a breakdown of how this money was generated over this period from a series of further issues. Most dominant are the funds raised though options and warrants.

Figure 4 – Fund-raising Data

Month	Total (£m)	Cash Placing (£m)	Options and Warrants (£m)	Vendor (£m)	Further Issue (£m)	Others (£m)	Funds Raised (£m)
January	136	25	57	13	16	25	161
February	195	42	84	21	14	34	167
March	199	53	83	18	17	28	320
April	200	30	95	20	21	34	257
May	200	53	79	16	24	28	317
June	209	45	95	18	16	35	352
July	170	34	71	13	26	26	630
August	153	30	64	18	14	27	361
September	131	21	56	14	20	20	201
Total	***1,593***	***333***	***684***	***151***	***168***	***257***	***2,766***

Source: London Stock Exchange

In terms of sector split, Figure 5 provides a break-down of how new and further money has been raised on AIM during the first nine months of 2017.

Figure 5 – Sector Analysis

Sector	New Issues	New Money (£m)	Further Issues	Further Money (£m)
Oil/Gas	9	81	191	485
Basic Materials	4	13	399	247
Industrials	11	350	186	246
Consumer Goods	2	37	38	38
Health Care	3	50	189	457
Consumer Services	4	77	146	134
Telecoms	1	40	20	210
Utilities	0	0	17	5
Financials	12	523	179	386
Technology	6	53	228	558
Total Equities	***52***	***1,225***	***1,593***	***2,766***

Source: London Stock Exchange

AIM multi-sector spread…

Whilst the above data covers just the last nine months, it does show several key sectors raising money, with the exception of the utilities sector, which has very few AIM constituents.

AIM's Stars - The 'Big 11'

One of the salient features of the AIM story since 1995 is how a few companies have grown very quickly – and aggressively.

No Vodafone…

To be sure, there is no comparison with the Vodafone story, whereby the former Racal subsidiary – within a generation of its founding – had become, by 1999, the fourth largest company in global history after Microsoft, Cisco and General Electric,

Nonetheless, there are currently 11 companies quoted on AIM, with a market capitalisation of over £1 billion each. Most of them simply did not exist in the 20th century; indeed, several, such as Boohoo, Clinigen and Purplebricks are less than a decade old.

Reproduced below are very brief potted profiles of AIM's 'Big 11' and their latest market capitalisations:

ASOS – Market Cap. £5.0bn.

On-line clothing business, ASOS, was launched – despite almost universal misgivings about the financial outlook for on-line clothes sales - in 2002; it now has c13.4m active customers. In terms of age, ASOS targets the 20 something clothing market;

Fevertree Drinks – Market Cap. £2.5bn.

Based on a 17th century anti-malaria protection derived from the eponymous tree, Fevertree produced its first Indian tonic water in 2005; its thriving business has been boosted by the recent popularity of gin;

Hutchison China Meditech – Market Cap. £2.4bn.

With a pipe-line of novel oral drug candidates, notwithstanding the sale of prescription drugs and consumer health products in China, Hutchison China Meditech has seen increasing investor interest – CK Hutchison retains a majority stake;

Boohoo.com – Market Cap. £2.4bn.

Like ASOS, Boohoo is also a major player in the on-line youth clothing market. It was founded in Manchester in 2008 and had 5.2m active customers as at February 2017;

Burford Capital – Market Cap. £2.2bn.*

A major provider of finance to the legal market, Burford participates in a market where there are demonstrably unequal resources in litigation outcomes; it was founded in 2009;

Abcam – Market Cap. £2.1bn.

Having originally been established to buy anti-bodies via the internet, the Cambridge-based Abcam has become a global player in the supply of life science tools. Its current AIM valuation is *c*10x its 2016/17 revenues;

Phoenix Global Resources – Market Cap. £1.5bn.

Oil and gas, primarily in Argentina where it owns substantial resources, are the core businesses of Phoenix Global Resources. It joined AIM in 2007 and has evolved – as its name suggests – via various corporate deals in South America;

Breedon – Market Cap. £1.2bn.

Originally Enstone, the East Midlands-based Breedon is the largest independent construction group in the UK. It was founded in 2008 and owns key building assets including the UK's largest cement plant;

Clinigen – Market Cap. £1.2bn.

In 2010, three health businesses were merged to form Clinigen, which specialises in being a major procurer of medicines from a wide range of sources;

Purplebricks – Market Cap. £1.1bn.*

Set up as recently as 2012 in the Midlands, Purplebricks has firmly established itself as a major disruptor in the estate agency market, where it is the leading on-line 24/7 agent;

Plus500 – Market Cap. £1.0bn.

Established in 2008, Plus500's expertise lies in trading Contracts for Differences (CfDs), which have been widely used in the electricity supply industry since privatisation. Plus500 has Israeli origins and undertook an IPO on AIM in 2013.

N.B. Please note that companies marked with an asterisk are Hardman clients.

The Future of AIM

Downside risks for AIM…

Although AIM has prospered over the last 22 years, there is no guarantee that its expansion will continue. A major economic down-turn on the back of rising global interest rates – a favoured scenario by market bears - could test AIM's resilience.

Nonetheless, given how AIM surmounted the financial crisis in 2008/09, it remains well-placed to expand and to enable more new and further funds to be raised by its membership.

In addressing AIM's prospects for the future, we believe there are several criteria that need to be in place:

- Continuing good performances from the leading companies quoted on AIM and fewer bad news stories, of which the former Quindell controversy stands out;
- An ongoing robust economic performance despite all the uncertainties posed by Brexit and the likelihood of higher interest rates;
- A tax regime that continues to treat AIM stocks favourably – and underpins the prices of some AIM-quoted stocks;
- The ability of AIM to generate genuine liquidity, especially at the lower end of the market;
- The avoidance of excessive regulatory involvement, which could be triggered by further AIM-related scandals.

Conclusion

In rude health currently…

The overall conclusion is that AIM is currently in rude health – it is still the fastest-growing stock market in the world. It acts as a host to almost 1,000 companies and, by the 2017 full-year, should have assisted in raising *c*£5.5bn of new and further capital – an impressive figure.

But the worm may turn…

But if the economy turns south – a far from improbable scenario – AIM may look back on 2017 as a year of plenty.

About the author

Nigel Hawkins undertakes analysis of the Utilities sector at Hardman, along with working on some special projects.

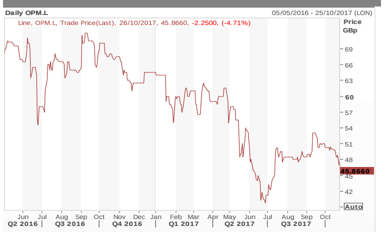
He has been an investment analyst since 1989, focussing on the UK/EU privatised water and electricity sectors as well as the gas and telecom companies. He has worked at Hoare Govett, Yamaichi and Williams de Broe.

Before joining the City, he worked as Political Correspondence Secretary to Lady Thatcher at 10 Downing Street between 1984 and 1987. Prior to that, he qualified as an Associate of the Institute of Chartered Secretaries and Administrators (AICS) and graduated in Law, Economics and Politics from Buckingham University.

Company Research

Priced at 25th October 2017 (unless otherwise stated).

Financials



Source: Eikon Thomson Reuters

Market data

EPIC/TKR	OPM
Price (p)	48.25
12m High (p)	70.5
12m Low (p)	40.3
Shares (m)	83.8
Mkt Cap (£m)	40.4
EV (£m)	39.6
Free Float*	41%
Market	AIM

**As defined by AIM Rule 26*

Description

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

Company information

CEO	Ian Smith
CFO	James Roberts
Chairman	John Newman

01225 474 230
www.1pm.co.uk

Key shareholders (@ 17/7/2017)

Lombard Odier	19.91%
Ronald Russell (director)	12.20%
Henderson Global	11.78%
Charles Stanley & Co	10.03%
Mike Nolan (director)	3.2%

Diary

Jan 2018	Interim Results (Nov)

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1pm plc

Well-positioned in attractive market

We reviewed 1pm in detail in our note "Financing powerhouse: A lunchtime treat". 1pm offers a unique exposure to the attractive UK, non-bank, SME financing market. It can deliver superior growth from: (i) focussed business units delivering high service levels; (ii) the market trend away from bank finance; and (iii) group synergies in funding, processing and cross-selling. 1pm adopts appropriate controls to credit in each of its units and at the Group level. Funding risk is tightly controlled. Recent acquisitions look well-priced and create strategic optionality and diversity. We forecast EPS growth of 27% for 2019 on 2017, giving a 2019e PE of 5.9x.

- **1pm news flow:** On 20th October, Sapia Partners announced a new 9.2% holding in 1pm. The invoice finance businesses continue to invest and strengthen the management team with, for example, the appointment of Tansy Battson as Head of Operations at Gener8 Finance (previously with Bibby Financial Services).
- **Peer news flow:** 1pm has few direct peers. Orchard Funding, a specialist lender, announced results on 17th October which were positively received. The possible offer by FirstRand for Aldermore (13th October) shows there is trade interest in smaller UK lenders and provides some comfort in the market outlook.
- **Market news:** The British Business Bank (BBB, a government body encouraging competition in SME finance) has announced its first accredited lender under its new Asset Finance variant of its successful Enterprise Finance Guarantee (EFG) programme. The fact that BBB is active in this space is encouraging for 1pm.
- **Valuation:** We detail the assumptions in dividend discount and Gordon's Growth Models later. The average indicates an end-2018 value of *c*88p (GGM 103p, DDM 72p, DDM - normal pay-out - 81p). The current 2019e PE of 5.9x and P/B of 0.8x appears highly inconsistent with the group's profitability and growth.
- **Investment summary:** 1pm offers strong earnings growth, in an attractive market, where management is tightly controlling risk. Targets to more than double the market capitalisation appear credible with triggers to a re-rating being both fundamental (delivery of earnings growth, proof of cross-selling) and sentiment (pay-back for management actively engaging the investor community). A profitable, growth company should trade well above NAV.

Financial summary and valuation

Year-end May (£000)	2015	2016	2017	2018E	2019E
Revenue	5,534	12,554	16,944	29,596	32,946
Cost of sales	(2,503)	(4,480)	(6,094)	(9,650)	(10,604)
Admin expenses	(1,394)	(4,290)	(6,469)	(11,034)	(12,201)
Operating profit	1,637	3,418	4,121	8,621	9,825
Pre-tax profit	1,620	3,346	4,080	7,883	8,971
Adj EPS (p)	3.7	6.5	6.5	7.8	8.2
Total receivables	24,991	56,061	73,955	145,123	162,538
Equity to recbls (%)	49%	43%	39%	34%	35%
Shares in issue (m)	36.9	52.5	54.9	86.4	88.5
P/ Adj Earnings (x)	13.0	7.5	7.4	6.2	5.9
P/BV (x)	1.4	1.1	0.9	0.9	0.8
Yield	0.7%	1.0%	1.0%	1.2%	1.7%

Source: Hardman & Co Research

Pharmaceuticals & Biotechnology

Source: Eikon Thomson Reuters

Market data

EPIC/TKR	ABZA
Price (p)	29.8
12m High (p)	66.0
12m Low (p)	29.0
Shares (m)	213.8
Mkt Cap (£m)	63.7
EV (£m)	45.2
Free Float*	21%
Market	AIM

**As defined by AIM Rule 26*

Description

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

Company information

CEO	John Burt
CFO	Julian Smith
Chairman	Ken Cunningham

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www.abzena.com

Key shareholders

Directors	1.7%
Invesco	25.8%
Woodford	23.0%
Touchstone	16.9%
Hargreave Hale	12.0%

Diary

Dec-17	Interims
4Q-17	Interim data GS-5745
2H-17	Start BIVV009 Ph.III

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Abzena

Edging closer to Gilead news (GS-5745)

Abzena is a global life sciences group offering a broad range of integrated services and technologies to enable the development of better biopharmaceutical drugs. With strong footprints in both the US and UK, the company provides a fee-for-service offering with the opportunity of embedding its technology – 'Abzena *Inside*' – into commercial products, with a potential to derive a long-term royalty stream. Following a period of integration, a fundraise was undertaken in April 2017 for capital investment to accelerate the growth opportunity. While this remains the case, short-term trading has been impacted, delaying the move into profitability.

- **Strategy:** Abzena has a dual strategic objective of providing enabling technology on a fee-for-service basis and, wherever possible, securing technology agreements from embedding its 'know-how' into customers' final commercial products so as to generate a significant long-term royalty stream.

- **500L bioreactor:** In response to customer demand, and in line with its expansion strategy, Abzena has begun the installation of a new GMP compliant 500L single-use bioreactor for Phase I and Phase II production. This bioreactor is expected to be available for use from January 2018.

- **Biosimilar cell line development:** Abzena has now completed the development and validation of an NS0 cell line, using its own know-how and in partnership with UGA Biopharma. The focus is on the manufacturing of a biosimilar antibody for the treatment of multiple sclerosis – an estimated market of $1.9bn in 2016.

- **Valuation:** Following the trading update, our valuation model has been updated. An EV/sales multiple of 3-4x prospective sales for the service business generates a value range of £70m-130m. Adding in the risk-adjusted NPV of the royalty stream (£129m) and cash suggests a group value of £217-257m, or 102-120p per share.

- **Investment summary:** Abzena is developing a value-added service business which is being supported by a capital investment programme. This strategy augurs well for the future, but short-term, can lead to some volatility in operational activities. The delay in reaching profitability until fiscal 2021 is a disappointment but this is being more than discounted by the current share price.

Financial summary and valuation

Year end March (£m)	2015	2016	2017	2018E	2019E	2020E
Sales	5.41	9.57	18.00	23.3	32.5	43.6
R&D investment	-2.99	-4.22	-3.80	-3.5	-3.2	-3.0
EBITDA	-4.51	-6.82	-7.50	-9.2	-5.1	2.4
Underlying EBIT	-4.80	-7.62	-8.60	-11.7	-8.8	-1.7
Reported EBIT	-5.30	-10.90	-9.70	-12.9	-10.0	-3.0
Underlying PBT	-4.72	-7.37	-8.60	-11.6	-8.8	-1.7
Statutory PBT	-5.22	-10.66	-9.50	-12.8	-10.0	-3.0
Underlying EPS (p)	-5.9	-5.9	-6.0	-5.5	-4.0	-0.8
Statutory EPS (p)	-6.6	-8.9	-6.6	-6.0	-4.5	-1.4
Net (debt)/cash	15.8	13.7	4.1	8.9	-2.0	-3.3
Capital increase	19.0	20.9	0.0	23.9	0.0	0.0
EV/sales (x)	8.3	4.7	2.5	1.9	1.4	1.0

Source: Hardman & Co Life Sciences Research

hardman&co

Healthcare Equipment & Services

Source: Eikon Thomson Reuters

Market data	
EPIC/TKR	AVO
Price (p)	30.5
12m High (p)	112.5
12m Low (p)	9.5
Shares (m)	80.9
Mkt Cap (£m)	24.7
EV (£m)	23.8
Free Float*	59%
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 2019; 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	21.7%
Brahma AG	13.4%
MK Trust	6.0%
Hargreaves Lansdown	5.9%
AB Segulah	5.4%
Banca Profilo	4.6%

Diary	
4Q 17	Harley Street update
4Q 17	PPS newsflow
4Q 17	Beam through SCDTLs

Analysts

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Advanced Oncotherapy

Technical advances accelerating

AVO is focused on delivering a more affordable, novel, proton-based radiotherapy system, based on technology originally developed at the world renowned CERN. The company is entering an exciting stage with construction of its Harley Street site well underway and on schedule, with the site expected to be ready for installation by end 1H'19. Interim results provided a commercial and financial update, showing AVO continuing to progress the proton beam acceleration and on-track to build a machine capable of treating superficial tumours by 3Q'18. Financing the project has been a challenge, but confidence is building up as the proton accelerates.

- **Strategy:** To develop a proton therapy system at an affordable price for the payor, financially attractive to the operator, whilst generating superior patient outcomes. AVO benefits from the technology know-how developed by ADAM, a CERN spin-off, and the leverage of world-class FDA-approved suppliers.

- **Interims:** AVO is on track to hit the milestones set during the Investor Presentation back in March 2017. Two milestones have already been reached. Also, the Harley Street site is progressing apace and the LIGHT machine is taking shape with the third element, from a total of four, being integrated.

- **Integration:** AVO is now progressing with integration of the different modules, with three of the four main accelerating elements already integrated. With less technically challenging units now being integrated, the LIGHT project is being increasingly de-risked. Acceleration of the proton beam continues apace.

- **Risks:** Construction work in a listed area of London has unique challenges. The more complex technical challenges have been overcome, but there is still risk in completing integration of the four structures. Finance remains the biggest challenge, but management has stated that discussions are well advanced.

- **Investment summary:** Demand for proton therapy is increasing worldwide and the need for a small, flexible, affordable and close-to-patient machine is becoming ever more apparent. AVO has attracted strong partners and discussions with potential customers have already started. Attention is focused on the construction timetable for the flagship Harley Street site, where excavation and construction work is progressing apace.

Financial summary and valuation

Year end Dec (£m)	2014	2015	2016	2017E	2018E	2019E
Sales	0.11	0.00	0.00			
EBITDA	-5.06	-6.41	-10.83			
Underlying EBIT	-5.18	-6.59	-11.18			
Reported EBIT	-6.45	-8.51	-13.09			
Underlying PBT	-5.06	-6.72	-11.27	Forecasts under review		
Statutory PBT	-7.56	-8.63	-13.18			
Underlying EPS (p)	-14.91	-7.13	-11.26			
Statutory EPS (p)	-22.29	-12.25	-14.37			
Net (debt)/cash	0.48	7.96	0.91			
Capital increase	10.16	21.06	13.54			
P/E (x)	-1.0	-2.0	-1.3			
EV/sales (x)	-	-	-			

Source: Hardman & Co Life Sciences Research

hardman&co

Pharmaceuticals & Biotechnology

Source: Eikon Thomson Reuters

Market data

EPIC/TKR	AGY
Price (p)	35.0
12m High (p)	39.5
12m Low (p)	19.8
Shares (m)	594.1
Mkt Cap (£m)	207.6
EV (£m)	188.8
Free Float*	37%
Market	AIM

**As defined by AIM Rule 26*

Description

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

Company information

CEO	Manuel Llobet
CFO	Nick Wykeman
Chairman	Peter Jensen

+44 1903 845 820
www.allergytherapeutics.com

Key shareholders

Directors	0.7%
Abbott Labs	40.5%
Southern Fox	21.4%
Odey	7.4%
Invesco	5.7%

Diary

22 Nov	AGM
4Q-17	Ph.II PQ Grass trial
2H'18	Ph.III PQBirch trial

Analysts

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Allergy Therapeutics

Grass allergy immunotherapy in Phase II

AGY is a long-established specialist in the prevention, diagnosis and treatment of allergies. Pollinex Quattro (PQ) grass, the subcutaneous allergy immunotherapy (AIT), continues to gain market share despite being available in the EU only on a 'Named Patient' basis. Investment in marketing over the last two years is bearing fruit, with another one-point share gain to 13%. Meanwhile, trials for full approval as a biological in Europe and the US are progressing, with results due to be released in the second half of calendar 2018. Dosing for the Phase II trial (G205) of PQ grass has now commenced: the trial is being carried out in EU for BLA submission in US.

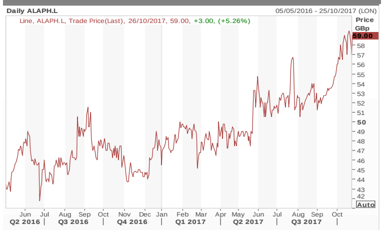
- **Strategy:** AGY is a fully integrated pharmaceutical company focused on the treatment of allergies. There are three parts to its strategy: continued development of its European business via investment or opportunistic acquisitions; the US PQ opportunity; and further development of its pipeline.
- **PQ Grass trial:** Dosing has begun in the Phase II dose-response/safety evaluation trial (G205). PQ Grass is an ultra-short course subcutaneous AIT (SCIT) to address the underlying cause of allergic rhinoconjunctivitis from grass pollen. Testing will be at >50 trial sites in three EU countries – data are expected in 2H 2018.
- **AIT market:** AGY anticipates that the US will be the main market for PQ Grass, with potential peak sales of grass AITs of \$300m-\$400m. The overall US AIT market is estimated at \$2bn. Preferences for route of administration differ among territories e.g. subcutaneous injection in US vs sublingual in France.
- **Competition:** Oralair® (Stallergenes Greer) is a sublingual tablet grass AIT that is licensed in >30 countries including US and EU (since 2008); it is licensed for rhinitis with- or without-conjunctivitis. ASIT biotech also has a subcutaneous grass AIT, gp-ASIT, in phase III trials for moderate-severe allergic rhinitis.
- **Investment summary:** AGY is going through an exciting period, with a clear vision, gaining market share from competitors, and leading the race to have its products fully approved and regulated as biologicals, first in Europe, then in the US, where the regulators are demanding change. The read-out from the EU Phase III PQ Birch trial in 2018 will provide the next major value inflection point.

Financial summary and valuation

Year end June (£m)	2014	2015	2016	2017	2018E	2019E
Sales	41.96	43.23	48.51	64.14	72.0	81.5
R&D investment	-2.96	-3.12	-16.22	-9.30	-18.0	-16.0
Underlying EBIT	1.39	2.91	-12.34	-2.89	-9.2	-5.4
Reported EBIT	1.21	1.41	-12.53	-2.60	-9.9	-6.1
Underlying PBT	1.27	2.84	-12.45	-2.97	-9.3	-5.5
Statutory PBT	1.08	0.65	-12.21	-2.67	-10.0	-6.2
Underlying EPS (p)	0.20	0.48	-2.36	-0.59	-1.5	-0.9
Statutory EPS (p)	0.16	0.02	-2.29	-0.42	-1.6	-1.0
Net (debt)/cash	2.25	20.14	20.04	18.80	8.6	4.8
Capital increases	0.00	20.08	10.97	0.03	0.3	0.3
P/E (x)	170.6	72.4	-14.8	-59.5	-22.9	-39.1
EV/sales (x)	4.5	4.4	3.9	2.9	2.6	2.3

Source: Hardman & Co Life Sciences Research

Pharmaceuticals & Biotechnology



Source: Eikon Thomson Reuters

Market data

EPIC/TKR	APH
Price (p)	57.5
12m High (p)	60.0
12m Low (p)	41.5
Shares (m)	474.3
Mkt Cap (£m)	272.7
EV (£m)	336.2
Free Float*	64%
Market	AIM

**As defined by AIM Rule 26*

Description

Alliance Pharma acquires, markets and distributes medical and healthcare brands in the UK, 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	11.7%
Artemis	10.1%
Fidelity	9.4%
Slater Invests.	7.3%
River & Merc	5.0%
GVQ IM	5.0%

Diary

Mch-18	Finals
May-18	AGM

Analysts

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Alliance Pharma

Kelo-cote building international sales

Alliance Pharma's buy-and-build strategy to evolve into a profitable, cash generative, specialty pharma business is bearing fruit. Acquisition of the dermatology and wound care products from Sinclair Pharma has transformed the company into an internationally brand-oriented business. Performance of the enlarged group is being driven by two international growth brands, Kelo-cote and MacuShield, which are exceeding expectations, supported by Bedrock products. Although the MHRA did not approve Diclectin, discussions continue which may or may not lead to reconsideration. Meanwhile, this will not impact the near-term financial performance.

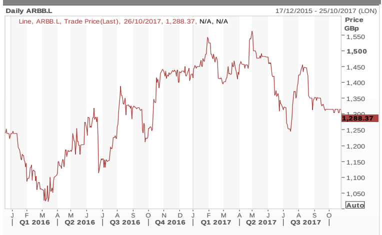
- **Strategy**: Since inauguration, APH has adopted a buy-and-build model, with 33 deals over 19 years assembling a portfolio of >90 products and establishing a strong track record. It is accelerating growth through investing in three multi-market brands, with infrastructure supported by its passive products.
- **Interims:** Key figures had already been released to the market. Underlying 1H sales grew 2.9%, boosted at the reported level by currency (+£2.6m) to £50.3m (£46.4m). Cash generation (£10.7m, Hardman calculation) continues to be strong and was also boosted by the £4m warranty receipt from Sinclair Pharma.
- **Growth brands:** Sales of both 'Star Brands', Kelo-cote and MacuShield, grew beyond expectations to £6.2m (+32% CER) and to £3.4m (+65% CER), respectively. This was driven by in-market growth and supplemented by new launches. Diclectin was not approved by the MHRA, but discussions continue.
- **Risks:** APH has a diversified strategy that includes International Star brand growth potential supported by Bedrock products. However, established sales patterns are not guaranteed and can be prone to unusual distributor buying patterns. The final outcome for Diclectin is subject to ongoing discussions.
- **Investment summary:** Although APH is forecast to have +6% CAGR in sales over the next three years, medium-term EPS growth will be held back by the investment in marketing and operational costs. The progressive dividend policy is expected to remain. Shares are trading on a 2017 P/E of 13.4x and carry a dividend yield of 2.3%, covered 3.3x. Approval of Diclectin would transform medium-to long-term growth prospects.

Financial summary and valuation

Year end Dec (£m)	2014	2015	2016	2017E	2018E	2019E
Sales	43.5	48.3	97.5	102.9	111.0	117.7
Operating profit	10.7	12.8	23.5	25.5	28.2	31.4
Reported pre-tax profit	10.2	15.9	22.2	*28.9	26.6	29.7
Underlying EPS (p)	3.3	4.2	4.1	4.3	4.7	5.2
Reported EPS (p)	3.2	4.9	3.9	4.8	4.3	4.8
DPS (p)	1.0	1.1	1.2	1.3	1.5	1.6
Net (debt)/cash	-21.1	-71.5	-76.1	-57.5	-43.0	-26.6
Net debt/EBITDA (x)	1.6	5.3	2.8	2.0	1.4	0.8
P/E (x)	17.5	13.7	13.9	13.4	12.3	11.1
EV/sales (x)	7.7	7.0	3.4	3.3	3.0	2.9
EV/EBITDA (x)	25.5	24.7	12.6	11.5	10.6	9.7
Dividend Yield (%)	1.7	1.9	2.1	2.3	2.5	2.8

** Includes £5m Sinclair settlement;*
Source: Hardman & Co Life Sciences Research

Speciality Finance



Source: Eikon Thomson Reuters

Market data

EPIC/TKR	ARBB
Price (p)	1,315
12m High (p)	1,717
12m Low (p)	1,245
Shares (m)	15.3
Mkt Cap (£m)	200
Loans to deposits (2018E)	80%
Free Float* (%)	42%
Market	AIM

**As defined by AIM Rule 26*

Description

ABG is a well-funded and capitalised private bank and has been growing very strongly. It holds an 18.6% stake in Secure Trust Bank (STB). It has *c*£90m 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
http://www.arbuthnotgroup.com

Key shareholders

Sir Henry Angest	56.1%
Liontrust Inv Ptnrs LLP	7.3%
Prudential plc	4.0%
R Paston	3.5%

Diary

Feb 2018	Trading update
March 2018	FY18 results

Analysts

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Arbuthnot Banking Group

More to come from business as usual

ABG's strong balance sheet gives it flexibility to exploit opportunities in uncertain economic times. With around £90m of surplus capital, it is delivering strong organic growth and is well-positioned to make acquisitions. Management's risk appetite remains conservative. From a small base, it can grow strongly with good credit quality in commercial lending. Management is innovative, with the most recent investment being building a commercial property fund infrastructure The shares trade at 0.86x NAV despite the long track record of adding value. With this history, we would expect them to trade at a premium to NAV.

- **ABG news flow:** The Q3 trading update on 11th October confirmed strong loan growth (group new loans +75%) especially in the relatively immature commercial loan book. Cost of funds continues to fall (to 0.49%). We have added £0.6m to 2017 infrastructure costs for setting up a new commercial property fund.

- **STB news flow:** STB's Q3 trading update (18th Oct.) also confirmed expected trends with a continuing strategic repositioning, away from higher risk, consumer unsecured and sub-prime motor products. The group launched a new referral system in retail finance passing on applications which fail its credit score.

- **Other market news**: The possible offer by FirstRand for Aldermore (13th Oct.) shows there is trade interest in smaller UK banks. We do not expect ABG to be a target, but it provides some comfort in the market outlook. St James Places business statement (24 Oct.) was positive in terms of net funds flow.

- **Valuation:** We outlined a range of valuation approaches and scenarios in our initiation piece (Tripedalism-three-legs-are-better-than-two) and last note (Strong profitable growth not shown in share price). The range, assuming capital is fully deployment, is £15.34 to £26.57. The shares currently trade below NAV.

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

Financial summary and valuation

Year end Dec (£000)	2013*	2014*	2015**	2016	2017E	2018E
Operating income	100,020	92,049	34,604	41,450	53,589	67,492
Total costs	(76,231)	(66,165)	(35,926)	(46,111)	(53,551)	(60,201)
Cost income ratio	76%	72%	104%	111%	99%	89%
Total impairments	(18,807)	(11,953)	(1,284)	(474)	(904)	(1,175)
Reported pre-tax	15,713	13,931	(2,606)	179	6,444	14,318
Adj pre-tax	18,528	15,327	2,982	4,009	7,711	14,318
Statutory EPS (p)	77.3	58.0	86.3	1,127.2	41.8	86.7
Adj EPS (p)	92.1	78.2	13.5	17.1	48.8	86.7
Loans / deposits (%)	76%	97%	82%	76%	81%	80%
Equity / assets (%)	6.1%	7.8%	5.5%	18.5%	15.0%	12.8%
P/Adj Earnings (x)	14.3	17.1	97.4	76.9	26.9	15.2
P/BV (x)	3.02	1.77	1.63	0.86	0.85	0.82

*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)	69.5
12m High (p)	98.0
12m Low (p)	60.0
Shares (m)	68.4
Mkt Cap (£m)	47.5
EV (£m)	34.4
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. It 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%
Lombard Odier	11.5%
Aviva	9.8%
Baillie Gifford	6.6%
Ruffer LLP	7.1%

Diary

4Q-17	Glythera feasibility
Apr-18	Interims

Analysts

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Avacta

Affimers – independent scientific publications

Avacta is the proprietary owner of Affimer technology for the development of bio-therapeutics, diagnostic tests and research reagents. Affimers represent a radical alternative to established antibody technology which dominates the drug industry, despite its limitations. Avacta has made considerable progress towards its strategic goal to be ready to enter first-in-man Affimer trials by the end of 2019. The results highlighted significant progress made in its in-house therapeutic programmes with the first *in-vivo* studies showing safety, tolerability and efficacy of an Affimer. This adds to the de-risking of Affimer technology and attracting potential partners.

- **Strategy:** To commercialise its Affimer technology through a combination of bespoke research tools, collaborative deals and by identifying and developing its own proprietary therapeutic Affimer leads. Avacta has sufficient cash resources to identify an Affimer lead through to IND submission (end-FY 2018).

- **FY 2017:** Revenues increased by +26% to £2.74m, with the Affimer business accounting for 42%. Avacta sees endorsements of its technology with a 91% YOY increase in the order book for custom Affimers, partnerships being signed for diagnostic and therapeutic applications, and multiple on-going evaluations.

- **Therapeutics and Research & Diagnostics:** AVCT disclosed for the first time its in-house pipeline including the PD-1 programme going apace with the first-in-man trial expected in 2019. Avacta keeps attracting partners – for example, the recent research collaboration with the Finnish FIT Biotech in gene therapy.

- **Publications:** Two independent articles on Affimers have been published in two journals in areas where antibodies failed to provide a solution. The first was a research article where a range of Affimers have been generated to understand diubiquitin signals; the second on Affimer use as research & diagnostics agents.

- **Investment summary:** Avacta has made considerable progress towards its goal of having its own proprietary Affimer-based drugs and growing a profitable reagents business. In just 18 months, it has identified potential leads and completed *in vitro* and *in vivo* pharmacokinetic pre-clinical tests. The next step will be to select its immuno-oncology lead candidate for filing as an Investigational New Drug (IND) in 2018, a prelude to beginning clinical testing in 2019.

Financial summary and valuation

Year end July (£m)	2015	2016	2017	2018E	2019E	2020E
Sales	1.81	2.17	2.74	3.25	3.70	5.60
R&D spend	-0.03	-0.86	-1.95	-3.80	-4.30	-4.50
EBITDA	-2.28	-4.15	-6.01	-7.97	-8.42	-9.40
Underlying EBIT	-2.85	-4.75	-6.94	-8.91	-9.35	-10.33
Reported EBIT	-5.57	-5.66	-7.33	-10.13	-10.77	-11.84
Underlying PBT	-2.83	-4.65	-6.86	-8.86	-9.35	-10.38
Statutory PBT	-5.54	-5.57	-7.24	-10.09	-10.77	-11.89
Underlying EPS (p)	-4.38	-5.51	-7.79	-10.71	-11.09	-12.57
Statutory EPS (p)	-9.84	-6.86	-8.36	-12.50	-13.16	-14.78
Net (debt)/cash	7.33	19.52	13.17	4.05	-5.51	-15.96
Capital increase	0.02	21.05	0.01	0.00	0.00	0.00
EV/sales (x)	38.3	32.1	25.4	21.4	18.8	12.4

Source: Hardman & Co Life Sciences Research

hardman&co

Financials

Source: Eikon Thomson Reuters

Market data

EPIC/TKR	BUR
Price (p)	1,169.0
12m High (p)	1,225.0
12m Low (p)	447.3
Shares (m)	208.2
Mkt Cap (£m)	2,434
Total assets ($m)	1,196
Free Float*	86%
Market	AIM

**As defined by AIM Rule 26*

Description

Burford Capital is a leading global finance and professional services firm focusing on law. Its businesses include litigation finance and risk management, asset recovery and a wide range of legal finance and advisory 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	22.7%
Woodford Investments	10.0%
Old Mutual	6.1%
Aberdeen Asset	4.9%

Diary

15 Nov-17	Interim dividend paid

Analysts

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Burford Capital

Green shoots developing in Asia

Burford has announced that it will be expanding its business in Asia-Pacific with additional investment in Singapore. The appointment of a new Director, Quentin Pak, to head operations there has also been announced. Burford has been exploring opportunities in Asia for a while, but as usual has been prudent and has done so on a small budget. Singapore, in particular, has seen positive developments, with local law changed in January 2017 to allow arbitration finance: Burford funded its first arbitration matter there in June. There have also been positive developments in Hong Kong.

- **Quentin Pak**: He will run Burford's office in Singapore and will look to expand Burford's presence in Asia and Australia. He has 20 years of experience in finance and law at various financial institutions, most recently at Commonwealth Bank of Australia's Singapore operations.
- **Valuation:** Although the shares have performed well, the good operating performance means the rating has grown more slowly. The P/E for 2019E is only 18.7 times. The 2019E RoE is 16.4% on a larger book value, with strong growth which suggests excellent metrics all round.
- **Risks:** The investment portfolio is still diversified, with exposure to over 500 claims, but it 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 is set to produce strong earnings growth.

Financial summary and valuation

Year end Dec ($m)	2014	2015	2016	2017E*	2018E	2019E
Revenue	82.0	103.0	163.4	302.0	212.0	266.5
Operating Profit	60.7	77.2	124.4	235.2	140.4	184.6
Reported net income	45.4	64.5	108.3	205.9	110.4	153.4
Underlying net income	53.0	64.5	114.2	221.4	122.1	165.1
Underlying Return on Equity	12.1%	16.0%	22.2%	30.7%	13.8%	16.4%
Underlying EPS ($)	0.26	0.32	0.55	1.06	0.59	0.79
Statutory EPS ($)	0.22	0.32	0.53	0.99	0.53	0.74
Dividend per share ($)	0.07	0.08	0.09	0.11	0.12	0.14
Yield	0.5%	0.5%	0.6%	0.7%	0.8%	0.9%
NAV per share ($)	1.87	2.12	2.22	2.94	3.47	4.21
P/E (x) (underlying)	57.3	47.1	27.1	14.0	25.3	18.7
Price/NAV (x)	7.9	7.0	6.7	5.0	4.3	3.5

** 2017 figures are expected to include some one-off items* *Source: Hardman & Co Research*

Chamberlin

One-off cost inefficiencies lead to lower forecasts

Chamberlin remains on track strategically, developing its product offering to the automobile turbocharger industry through expansion of its principal operational facilities. Revenue growth is meeting expectations but one-off in-house cost inefficiencies lead to lower forecasts. The risk/reward profile, however, remains favourable and the shares are attractively valued both against its peer group and on a DCF basis.

- **Trading Update:** Revenues for the financial year are in line with management expectations, reflecting overall good demand levels across the foundry and engineering businesses. Demand for turbo-charger bearing housings, a key driver for the group, continues to grow strongly. The two engineering operations, Exidor and Petrel, are trading in line with expectations. However, margins within the Group's foundry businesses, have been adversely affected by production issues. These issues are being addressed: Chamberlin is working very closely with the machine and tooling suppliers to rectify this one-off situation in the near term.
- **2017/18 Forecasts**: Whilst management still expects group revenues for the year to be substantially ahead of last year, underlying profits are now only expected to be in-line with the prior year. We have recently reduced our 2017/18 profitability expectations for the Foundries business and group underlying Pre-tax Profits forecast from £1.94m to £0.76m. We have also made minor adjustments to our 2018/19 forecasts.
- **Valuation:** The shares remain lowly valued, trading on calendar 2017 EV/sales and EV/EBITDA of around 0.4x and 5.0x respectively, compared with sector averages of 1.2x and 8.8x respectively. Our DCF valuation, using a WACC of 10%, suggests a fair value at around 200p.
- **Investment summary:** The company has repositioned itself from a traditional engineering company to becoming a key supplier to the automotive turbo-charger sector. The shares offer the opportunity to invest in a cyclical stock with high operational leverage. Chamberlin's shares remain attractively valued against its peer group and on a DCF basis.

Financial summary and valuation

Year End March (£m)	2016	2017	2018E	2019E
Sales	29.1	32.1	39.6	39.1
Gross profit	5.9	6.9	7.6	9.0
EBITDA	1.5	2.0	2.7	4.3
Underlying EBIT	0.4	0.7	1.1	2.4
Reported EBIT	0.1	0.4	1.1	2.4
Underlying PBT	0.65	0.57	0.76	2.06
Underlying EPS (p)	1.5	4.5	7.6	20.7
Statutory EPS (p)	-4.4	-12.2	3.1	16.2
Net (debt)/cash	-3.2	-6.8	-8.2	-7.3
P/E (x)	-	-	12.7	4.6
EV/sales (x)	0.7	0.6	0.4	0.4
EV/EBITDA (x)	-	-	5.5	3.5

Source: Hardman & Co Research

Industrial Engineering

Source: Eikon Thomson Reuters

Market data

EPIC/TKR	CMH
Price (p)	83.0
12m High (p)	176.0
12m Low (p)	55.5
Shares (m)	8.3
Mkt Cap (£m)	6.9
EV (£m)	13.7
Free Float*	40%
Market	AIM

**As defined by AIM Rule 26*

Description

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

Company information

CEO	Kevin Nolan
CFO	David Roberts
Chairman	Keith Butler-Wheelhouse

+44 01922 707110
www. chamberlin.co.uk

Key shareholders

Rights & Issues IT	12.5%
Miton Capital Partners	12.5%
Henderson	9.9%
Chelverton	6.3%
Thornbridge IM	6.3%
Schroders	4.4%
Other	48.1%

Diary

End Nov-17	2017/18 Interims

Analysts

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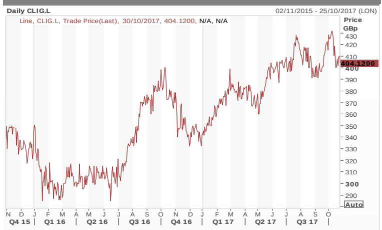
ps@hardmanandco.com

hardman&co

Financial Services



Source: Eikon Thomson Reuters

Market data

EPIC/TKR	CLIG
Price (p)	405.0
12m High (p)	435.0
12m Low (p)	332.5
Shares (m)	26.9
Mkt Cap (£m)	109.0
EV (£m)	95.1
Market	LSE

**As defined by AIM Rule 26*
Price on 25th October 2017

Description

City of London is an investment manager specializing in using closed-end funds to invest in emerging markets.

Company information

CEO	Barry Olliff
CFO	Tracy Rodrigues
Chairman	David Cardale

+ 44 (0) 207 711 1566
www.citlon.com

Key shareholders

Directors & staff	17.3%
Blackrock	10.0%
Canaccord Genuity Group	7.9%
Polar Capital	3.3%

Diary

31 Oct 17	Final div. payment
17 Jan 17	Q2 FUM announcement
19 Feb 18	Interim results
1 Mar 18	Interim ex-div date

Analysts

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bm@hardmanandco.com

City of London Investment Group

Q1 showing steady growth

City of London has recently published a trading statement covering 1Q'18. As indicated at the time of the release of the annual report, Funds under Management (FUM) have continued to grow and finished the quarter at $5.0bn, compared with $4.7bn at the end of June. Emerging Markets (EM) have continued to perform well, though this has continued to lead to redemptions from re-balancing. Over the quarter, FUM growth of 6% slightly lagged the MSCI Emerging Markets total return Index figure of 8%, but was ahead of the MSCI World Index rate of 5%. The pipeline is described as 'robust'.

- **Operations**: Revenue, expense and profitability numbers are marginally ahead of expectations. Revenue continues to accrue at 84 basis points of FUM, with FUM a little ahead of expectations. Costs are in line with previous figures.

- **Profits:** The run rate of operating profitability before profit share and of EIP is currently £1.6m per month. This is based on the quarter-end exchange rate of 1.34 US$/£. The net result is that the estimated first quarter post-tax profit is £2.5m.

- **Valuation:** The prospective P/E of 10.3 times is at a significant discount to the peer group. The historic yield of 5.8% is very attractive and should at the very least provide support for the shares in the current volatile markets.

- **Risks:** Although Emerging Markets can be volatile, City of London has proved to be more robust than some other EM fund managers, aided by its good performance and strong client servicing. However, further EM volatility may increase the risk of such outflows.

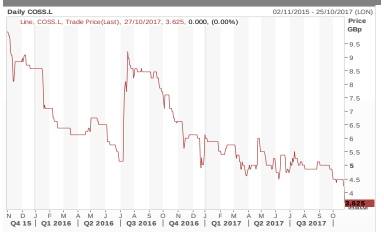
- **Investment summary:** Having shown a robust performance in challenging market conditions, City of London is now reaping the benefits in a more supportive environment. The valuation remains reasonable. The 2017 full-year saw the first dividend increase since FY 2012 and, unless there is significant market disruption, more should follow in the next few years.

Financial summary and valuation

Year end Jun (£m)	2014*	2015	2016	2017	2018E	2019E
FUM ($bn)	3.90	4.20	4.00	4.66	5.38	5.86
Revenue (£m)	24.22	25.36	24.41	31.29	34.99	35.83
Statutory PTP	7.24	8.93	7.97	11.59	13.47	13.97
Statutory EPS (p)	20.7	26.4	23.3	36.9	41.7	43.2
Dividend (p)	24.0	24.0	24.0	25.0	26.0	27.0
P/E (x)	19.6	15.3	17.4	11.0	9.7	9.4
Yield	5.9%	5.9%	5.9%	6.2%	6.4%	6.7%

Source: Hardman & Co Research

Healthcare Equipment & Supply



Source: Fidessa

Market data

EPIC/TKR	COS
Price (p)	4.3
12m High (p)	6.8
12m Low (p)	3.3
Shares (m)	324.5
Mkt Cap (£m)	13.8
EV (£m)	6.7
Free Float*	66%
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
Chairman	David Evans

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

Key shareholders

Directors + management	20.7%
Seneca	13.2%
Calculus Capital	9.5%
Livingbridge	4.6%
Helium Rising Stars	4.0%
Rathbones IM	4.0%

Diary

4Q-17	CM CE Mark filing
5th Dec	Interim results
Jul-18	Finals

Analysts

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Collagen Solutions

Investing for future growth

Collagen Solutions is a biomaterials company developing and manufacturing medical grade collagen components for use in medical devices, research, and regenerative medicine. A number of investment initiatives have been introduced to accelerate growth, including global commercial infrastructure and development of a pipeline of finished medical devices, the first of which is ChondroMimetic for repair of small cartilage lesions. A trading statement on sales for the six months to September 2017 has indicated that reported revenue will be broadly flat, impacted by revenue recognition issues. Complete 1H results will be released on 5th Dec 2017.

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

- **Trading statement:** Investment initiatives will take time to flow through, with sales growth showing in 2H'18. 1H'18 revenue is now expected at £1.86m (£1.89m) impacted by revenue recognition issues of £0.15m, arising from a new customer purchase order, fulfilled but not invoiced. This will resolve in 2H'18.

- **Retrospective trial:** As part of the process of re-applying for CE Mark, COS has undertaken an extension study to reassess 15/17 patients from the original ChondroMimetic trial in 2009-10. This will provide unprecedented 8-year follow-up data; all patients have been assessed and initial data is very positive.

- **Outlook:** Eight new early-stage customer deals were completed in 1H'18, which should deliver future growth. All ChondroMimetic data has to be compiled and analysed for completion of a Clinical Study Report that will form part of the package for submission to the regulators for CE Mark early in 2018.

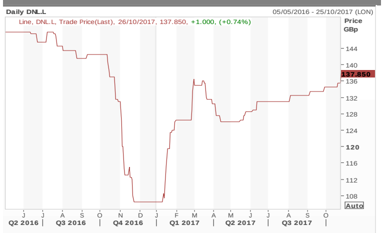
- **Investment summary:** ChondroMimetic fulfils COS's stated strategy to move further up the value chain. The 8-year data will significantly differentiate it from competing therapies; with the last patient now assessed, the enrolment phase has been de-risked. In order to maximise returns, COS will need to sign a strong commercial partner in readiness for launch around the middle of 2018, and capable of undertaking the trials needed to launch the product in the US.

Financial summary and valuation

Year end March (£000)	2015	2016	2017	2018E	2019E	2020E
Sales	973	3,130	3,946	5,200	7,230	9,785
Underlying EBITDA	-663	-374	-1,209	-1,170	30	1,603
Underlying EBIT	-793	-721	-1,658	-1,880	-701	853
Underlying PBT	-920	-983	-1,790	-2,141	-1,030	665
Statutory PBT	-1,102	-866	-1,614	-2,241	-1,130	565
Underlying EPS (p)	-0.98	-0.64	-1.04	-0.72	-0.38	0.11
Statutory EPS (p)	-1.17	-0.57	-0.95	-0.75	-0.41	0.08
Net (debt)/cash	3,282	2,384	7,072	3,471	438	-508
Capital increase	5,422	207	6,462	0	0	0
P/E (x)	-4.4	-6.6	-4.1	-5.9	-11.2	37.5
EV/sales (x)	6.9	2.1	1.7	1.3	0.9	0.7
EV/EBITDA (x)	-	-	-	-	-	4.2

Source: Hardman & Co Life Sciences Research

Pharmaceuticals & Biotechnology



Source: Eikon Thomson Reuters

Market data

EPIC/TKR	DNL
Price (p)	135.5
12m High (p)	138.0
12m Low (p)	105.0
Shares (m)	52.3
Mkt Cap (£m)	70.9
EV (£m)	54.5
Free Float*	13%
Market	AIM

**As defined by AIM Rule 26*

Description

Diurnal is a UK-based specialty pharma company targeting patients with chronic, endocrine (hormonal) diseases, which are potentially life threatening. Infacort is awaiting EU regulatory approval and Chronocort is in Phase III trials. Further development of the pipeline is on-going.

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	8.1%

Diary

14th Sept	Hardman note on Results
21 Nov	AGM
4Q-17	Infacort MA expected
2H-17	US Ph.III Chrono. & Infa.

Analysts

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Diurnal Group

AGM – 21st November

Diurnal is a clinical stage specialty pharmaceutical company focused on diseases of the endocrine system. Its two lead candidates are targeted at rare diseases with unmet medical need, with the aim to build a long-term 'Adrenal Franchise'. Infacort has been submitted to the EMA for approval, meanwhile, the company is establishing commercial infrastructure in Europe and distribution in Israel, with sales due to start early 2018. Diurnal is expecting to receive Market Authorisation from the European Medicines Agency before the end of the year and is on track for first sales during 2018 in Europe and Israel for the paediatric product Infacort.

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

- **Infacort:** Diurnal is positioning itself for commercial launch. In Europe, approval at end of 4Q 2017 would allow first sales in early 2018 and with this experience, provide a strong platform for the US where Orphan Drug Designation has already been received for Infacort.

- **Infacort US Phase III:** The study will be different to that used in the European trial and the final confirmation for the design is still awaited from the FDA trial given that Infacort will be targeted at children up to the age of 16. The food compatibility study when mixed with soft food has already been completed.

- **Risks:** There is a risk with all drugs in development that they might fail clinical trials or not be approved by the regulators. However, Diurnal is unusually low risk because its products are formulation variants of well-established drugs. First approval is expected at the end of the year for its lead product Infacort.

- **Investment summary:** Diurnal is quietly going about its business of bringing its products to market which are focused on diseases of the endocrine system. Infacort, a cortisol replacement therapy designed for children and babies, will be first, followed by Chronocort for adults. The cortisol replacement market is for conditions that need life-long treatment, and has a potential value of $3.5bn.

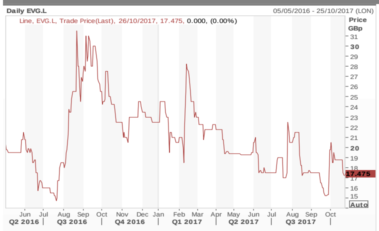
Financial summary and valuation

Year end June (£m)	*2015	2016	2017	2018E	2019E	2020E
Sales	0.00	0.00	0.00	0.13	3.00	14.88
SG&A	-1.00	-1.99	-3.22	-6.00	-7.54	-9.14
R&D	-2.23	-3.89	-8.34	-10.50	-10.00	-7.00
EBITDA	-2.98	-5.87	-11.54	-16.38	-14.84	-2.74
Underlying EBIT	-2.99	-5.88	-11.55	-16.38	-14.84	-2.74
Reported EBIT	-2.99	-6.99	-12.07	-16.93	-15.41	-3.34
Underlying PBT	-3.02	-5.95	-11.64	-16.56	-15.11	-3.10
Statutory PBT	-3.02	-7.06	-12.16	-17.11	-15.68	-3.70
Underlying EPS (p)	-8.49	-12.48	-17.05	-25.14	-22.67	-1.56
Statutory EPS (p)	-8.72	-15.02	-18.04	-26.18	-23.77	-2.71
Net (debt)/cash	6.05	26.88	16.37	2.89	-10.53	-15.79
Capital increases	9.25	24.52	0.05	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)	17.3
12m High (p)	30.3
12m Low (p)	13.0
Shares (m)	74.1
Mkt Cap (£m)	12.8
EV (£m)	10.8
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	Richard Moulson
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	5.1%
Seneca	4.8%

Diary

Dec-17	Interims
Mid-18	STEM interim data

Analysts

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Evgen Pharma

SFX-01: European patent granted

Evgen is a 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 trials for subarachnoid haemorrhage (SAH) and metastatic breast cancer. Recruitment in both trials are going apace. The first European patent for SFX-01 has been granted in Europe, covering the manufacturing and scale-up of SFX-01.

- **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.

- **European Patent granted:** The patent, which covers the manufacturing and scale-up of SFX-01 using the Sulforadex platform, has been granted in Europe. A composition of matter patent is pending. It is the eighth patent to be granted this year and extends the cover, with patents granted in US, JP and Australia.

- **SFX-01:** SFX-01 is a synthetic form of sulforaphane stabilised in an alpha-cyclodextrin lattice using the Sulforadex platform. It is the first of a potential series of stable synthetic variants of sulforaphane. SFX-01 is currently in two Phase II trial for advanced breast cancer and subarachnoid haemorrhage.

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

- Investment summary: Evgen is quietly progressing its trials with SFX-01, which is being targeted initially at conditions which have multi-billion dollar potential and unsatisfied medical need. Evgen intends to out-license its products to the drug majors for global commercialisation. Whilst in this quiet phase, the market appears unwilling to afford Evgen an EV that properly reflects the lower risk profile and true potential, which provides the investment opportunity.

Financial summary and valuation

Year end March (£000)	2015	2016	2017	2018E	2019E	2020E
Sales	0	0	0	0	0	0
SG&A	-312	-620	-949	-1,063	-1,105	-1,161
R&D	-484	-612	-2,500	-3,250	-4,550	-5,233
EBITDA	-789	-1,224	-3,432	-4,296	-5,638	-6,376
Underlying EBIT	-796	-1,232	-3,449	-4,313	-5,655	-6,393
Reported EBIT	-1,246	-2,434	-3,658	-4,532	-5,886	-6,635
Underlying PBT	-1,853	-2,015	-3,435	-4,309	-5,660	-6,393
Statutory PBT	-2,303	-3,217	-3,644	-4,528	-5,890	-6,635
Underlying EPS (p)	-6.2	-3.9	-3.9	-4.9	-6.3	-7.1
Statutory EPS (p)	-7.8	-6.3	-4.2	-5.2	-6.6	-7.4
Net (debt)/cash	-903	7,126	3,859	268	-4,545	-9,823
Capital increases	0	8,565	0	0	0	0

Source: Hardman & Co Life Sciences Research

hardman&co

Business support services

Source: Eikon Thomson Reuters

Market data

EPIC/TKR	GTLY
Price (p)	157
12m High (p)	196
12m Low (p)	109
Shares (m)	106.9
Mkt Cap (£m)	168.0
EV (£m)	172.0
Free Float*	34.3%
Market	AIM

**As defined by AIM Rule 26*

Description

Gateley provides legal services through offices in the UK and one in Dubai. In 2015, it was the first full-service commercial law firm to float.

Company information

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

+44 (0) 121 234 0000
www.gateleyplc.com

Key shareholders

Directors (incl Mssrs Davies, Ward and the COO)	6.1%
Liontrust	9.5%
Miton	6.2%
Premier	4.0%
Peter Davies esq (dir)	2.8%
Michael Ward esq (dir)	2.8%

Diary

Nov-17	Trading update
Dec-17	Interim results

Analysts

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Mike Foster 020 7194 7633
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Gateley (Holdings) Plc

Mid-November trading update anticipated

Gateley operates in the UK legal services market, which is worth *c*£30bn. It benefits from a unique status, namely being quoted – and operating within this people-based service industry. Its ability to grow is enhanced by this status, through careful targeting of lateral hires (either of individuals or businesses). Gateley has achieved two acquisitons to date (in April and in September 2016) during its stockmarket quoted history. Gateley is broadly spread by sector, and current trading (updated at the AGM) "continues to perform well and is trading in line with management's expectations. Following a year of significant expansion and investment, Gateley continues to achieve solid organic growth."

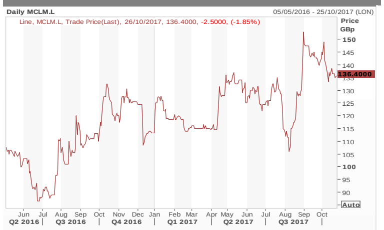
- **News:** In October, the company secured four lateral hires into its Leeds office, which has grown rapidly in the last five years; it started with a team of just five to one with over 70 members of staff today; this is a good example of the type of low-risk organic growth which can be generated.
- **Forecasts:** We forecast revenue growth of 7% for this year and 8% for 2018/19, leading to EPS growth of 9%, then 8%. We believe these forecasts are conservative and have not factored in any new office openings or further acquisitions.
- **Current Trading:** The 27th September AGM confirmed solid progress and we anticipate a further update in November (as Gateley provided last year). Importantly, the growth estimates are 100% organic.
- **Valuation:** It is in the nature of a new sector that the stock market will often ascribe a conservative valuation; as market participants become more familiar with the industry, the valuation has potential to grow. The current prospective p/e is 13.9x, falling to 12.8x next year, on conservative numbers.
- **Investment summary:** Gateley has significant growth potential as it has a small share of a growing and consolidating market. It has a good track record and considerable growth potential: it offers a progressive dividend yield of over 4%.

Financial summary and valuation

Year end April (£000)	2015	2016	2017	2018E	2019E
Sales	60.9	67.1	77.6	83.3	90.0
EBITDA	11.3	12.9	14.9	16.2	17.5
Financial income	0.0	-0.2	-0.2	-0.1	0.0
PBT Adj (pre share based, excl, amort.)	10.5	12.0	13.8	15.4	16.7
EPS (Adj., p) [1]	8.3	9.1	10.1	11.4	12.3
DPS (p)	5.1	5.6	6.6	7.0	7.4
Free cash flow	3.0	13.4	6.0	12.8	11.5
Net assets [2]	0.0	12.7	17.4	20.9	25.3
Net cash	-19.2	-4.2	-4.9	-0.1	3.2
PE	18.9	17.2	15.6	13.9	12.8
EV/EBITDA	15.6	13.1	11.6	10.4	9.5
Div yield	3.3%	3.6%	4.2%	4.4%	4.7%

[1] 11.5p FY19E POST share based payments [2] LLP basis 2015
Source: Gateley accounts, Hardman & Co Research

Financial Services



Source: Eikon Thomson Reuters

Market data

EPIC/TKR	MCL
Price (p)	135.0
12m High (p)	154.8
12m Low (p)	105.5
Shares (m)	129.5
Mkt Cap (£m)	174.8
EV (£m)	160.8
Free Float*	44%
Market	AIM

**exc directors current holdings*

Description

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

Company information

Non Ex Chr	Stephen Karle
CEO	Paul Smith
CFO	Andy Thomson

Tel: +44 (0)330 045 0719
www. morsesclubplc.com

Key shareholders (29 Sep 2017)

Perpignon Limited	51.00%
Woodford Inv Mgt	8.64%
Miton Asst mgt	7.47%
JO Hambro	5.28%
Majedie Asset Mgt	4.86%
Andy Thomson	4.38%
Blackrock	3.06%

Diary

Mar 2018	Trading update
End Apr 2018	Results

Analysts

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Morses Club PLC

Managed growth for long term value

The H1 FY18 results confirm MCL's fundamental approach to business (see our note Building a profitable and sustainable franchise). It is creating long-term value, carefully assessing risk and returns and prioritising resources to the most enhancing areas. In this period, the unique opportunity in home collect credit (HCC) was clearly the priority. Book acquisitions and some other new product areas were temporarily less of a management focus although we expect growth from them in due course. The modest on-line lending pilot is still in pilot stage and will be rolled out carefully. Our FY19 estimates were broadly unchanged (EPS up 24% on FY17).

- **MCL HCC opportunity:** MCL confirmed that nearly 600 agents and managers joined (filling vacancies and replacing some under-performing agents gave a net territory build of *c*400). Critically, these agents have been added without disruption to the existing HCC business and are performing ahead of plan.
- **Other growth opportunities:** There were no acquisitions in the period. This partially reflected market conditions and a management focus on new agents which provides a longer-term revenue stream. H1 FY18 was primarily a period of developing and integrating IT and risk model testing in the on-line loan area.
- **Provident Financial read across:** PFG gave an update (13th October) noting it had recruited more agents in HCC. Critically, these have not significantly come from competitors like MCL. Underlying credit is robust across the group. The IFRS9 (provisions accounting) impact on PFG is *c*6-8% off receivables, 15-17% off NAV.
- **Valuation:** We detailed a range of valuation approaches and sensitivities in our notes Building a profitable and sustainable franchise and Bringing-home-collect-into-the-21st-century. The range is now from 157p (dividend discount model) through to 198p (Gordons Growth model). Peer valuations also indicate upside.
- **Investment summary:** MCL is operating in an attractive market and has a dual-fold strategy which should deliver an improved performance from existing businesses and provide new growth options. MCL conservatively manages risk and compliance, especially in new areas. The agent network is the competitive advantage over remote lenders. The valuation has material upside and we forecast a Feb 2018E dividend yield of 5.2% with cover of 1.6x (adj. earnings).

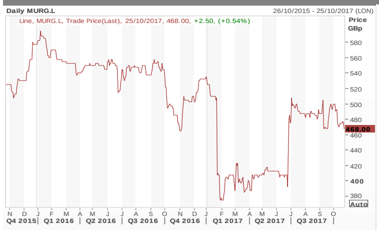
Financial summary and valuation

Year end Feb (£ms)	2015	2016	2017	2018E	2019E
Reported revenue	89.9	90.6	99.6	114.1	125.8
Total impairments	-22.9	-18.8	-24.3	-31.4	-34.0
Total costs	-51.4	-53.4	-56.7	-63.4	-68.5
EBITDA	16.5	19.3	19.9	20.7	24.9
Adjusted pre tax	13.0	16.8	17.7	18.1	21.6
Statutory pre tax	58.5	21.2	11.2	13.4	14.8
Statutory EPS (p)	46.5	6.1	6.6	8.3	9.2
Adj EPS (p)	8.1	10.2	10.8	11.2	13.3
P/ Adj Earnings (x)	16.6	13.2	12.5	12.0	10.1
P/BV (x)	1.8	3.2	2.8	2.8	2.7
P/tangible book	2.0	3.9	3.4	3.1	2.9
Yield	n/m	n/m	4.6%	5.2%	5.7%

Source: Hardman & Co Research

hardman&co

Support Services



Source: Eikon Thomson Reuters

Market data

EPIC/TKR	MUR
Price (p)	475
12m High (p)	560
12m Low (p)	370
Shares (m)	9.0
Mkt Cap (£m)	42.8
EV (£m)	40.6
Free Float*	53%
Market	AIM

**As defined by AIM Rule 26*

Description

Murgitroyd offers a global service to clients with patents, trademarks etc. Operating from 15 offices worldwide, 50% of its revenues are from 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

26 Oct-2017	AGM
Jan 2018	Interim results

Analysts

Mike Foster 020 7194 7633
mf@hardmanandco.com

Murgitroyd

Global growth coming through

Murgitroyd announced its results on 12th September, with a welcome return to PBT growth in H2 (+6.9% vs prior year, EPS -8.4% due to a tax charge which contained some H2 one-offs). The long-term trends of steady market growth are intact. Margins are starting to point upwards. There is continuing investment in business development, and in scale (including a 2016 acquisition which saw H1 integration costs). We anticipate a further H2 profit weighting in the current year.

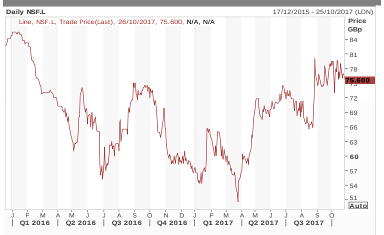
- **Key drivers:** Group revenues and dividends have grown each year since incorporation in 2001. Murgitroyd has a global footprint, with a cost-engineered flexible offering. US and European patent markets are at all-time highs, although macro-economic uncertainties must be taken into account. Historically, market volatility has been muted. Global markets continue to grow.
- **FY18E:** Our estimates take into account the US$ strength which benefitted FY17 will not recur this year. The US, contributing 50% of revenues, remains a key focus for investment. We raised our dividend estimates slightly (from 17.8p) following the results announcement. We understand margin trends are stabilising.H1'18 will not bear integration and other costs which impacted H1'17.
- **Valuation:** 2018 will see an H2 profit skew. Earnings grew through the post-2008 financial crisis, so the rating should reflect resilience in difficult macro-economic times – albeit some uncertainty affects Murgitroyd's own clients. Note that the 26% full-year 2016 tax charge rose to 32% in FY 2017: the same rate is estimated for FY 2018.
- **Risks:** The risks to growth rates (the balance sheet and cash flow are secure and stable), centre around the details of patent filing protocols. These can influence broad trends in the work pipe-line, namely fee negotiations with clients and the risks and opportunities of technology. Murgitroyd has benefited from on-line operations but they also poses a threat at the level where Artificial Intelligence could be deployed. There is global exposure in revenue and costs – there is modestly more US$ income over £ cost.
- **Investment summary:** On-going good dividend growth and free cash flow are attractive in an environment of a steadily growing global market. H1 2017/18 cash flow was impacted by the investments made and the strong inflow in H2 came as anticipated. Clearly, Murgitroyd has strong resources to build growth.

Financial summary and valuation

Year end May (£m)	2014	2015	2016	2017	2018E
Sales (£m)	38.4	39.8	42.2	44.3	46.0
EBITDA (£m)	4.6	4.5	4.6	4.2	4.6
PBT (Ad.) (£m)	4.2	4.2	4.3	3.9	4.2
EPS (Adj) (p)	33.6	34.8	35.3	28.7	31.5
DPS (p)	13.3	14.8	16.0	17.0	18.0
Net (debt)/cash (£m)	(0.4)	0.7	2.8	2.2	2.7
Net debt/EBITDA (x)	0.1	cash	cash	cash	cash
P/E (x)	14.1	13.6	13.5	16.6	15.1
EV/Sales (x)	1.1	1.1	1.0	0.9	0.9
EV/EBITDA (x)	9.3	9.3	8.9	9.7	8.8
FCF Yield (%)	5.8	5.2	7.2	5.9	4.9

Source: Hardman & Co Research

Financial Services



Source: Eikon Thomson Reuters

Market data

EPIC/TKR	NSF
Price (p)	76.5
12m High (p)	78.88
12m Low (p)	50.5
Shares (m)	317.0
Mkt Cap (£m)	242.5
EV (£m)	324.6
Free Float*	99%
Market	Main

**exc directors 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 has 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 (9 Oct)	28.27%
Woodford Investment	26.40%
Marathon Asset Mgt	10.18%
Aberforth Partners	5.04%
Quilter Cheviot AM	3.94%

Diary

29 Nov-17	Investor Day / trading update
March 2018	Results

Analysts

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Non-Standard Finance

Opportunities not reflected in share price

NSF's Home Credit Collect (HCC) business has recruited over 430 experienced agents, taking advantage of the fall-out from Provident Financial's (PFG) self-inflicted woes. This growth is now being carefully managed through the critical Christmas sales period. The guarantor loan business has been quadrupled by the acquisition of George Banco (GB), adding economies of scale and diversity of customers and distribution within the product. Everyday Loans (EL) is continuing its well-established branch roll-out plan whilst improving yields. NSF has locked in funding for six years. The valuation does not reflect the opportunities.

- **NSF News:** Invesco continues to increase its holding in NSF announcing on 9th October that its stake has risen to 28.3%. At the end of September, NSF announced that, as expected, George Banco, the Group's recently acquired guarantor loans business, had received its full FCA authorisation
- **Provident Financial read across:** PFG gave an update (13th October) noting it had recruited more agents in HCC. Critically, very few have come from competitors such as NSF. Underlying credit was robust across the Group. The impact of IFRS9 (provisions accounting) was *c*6-8% off receivables and15-17% off NAV but no change to the profit made on each loan.
- **Other HCC news:** MCL results (5th October) confirmed expected trends with (i) the opportunities from PFG's strategic change; and (ii) underlying credit remaining robust. Both have a positive read-across for NSF. IPF is hosting an IFRS9 seminar on 17th Nov 17 which may give some more light on its impact on a HCC business.
- **Valuation:** We reviewed a range of valuation metrics (and sensitivity to assumptions) in both our initiation Carpe diem and in our more recent note Branching Out Investment Accelerated. These indicate a range of 100p-112p per share on absolute measures. The relative-measures upside is less as the sector appears cheap.
- **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 and 20% ROA for each of its operating divisions appear credible and investors are paying 10.7x 2018 P/E.

Financial summary and valuation (pro forma normalised)

Year end Dec (£000)	2016	2017E	2018E
Reported revenue	94,674	120,307	159,111
Total impairments	(25,705)	(29,400)	(37,692)
Total costs	(49,600)	(61,574)	(73,847)
EBITDA	19,369	29,333	47,572
Pre-tax	13,056	18,364	27,892
Statutory Pre-tax	(9,342)	(2,346)	8,484
Pro forma EPS (p)	3.37	4.67	7.13
Dividend (p)	1.20	2.25	3.25
P/ Adj Earnings (x)	22.7	16.4	10.7
P/BV (x)	1.0	1.0	1.0
P/tangible book	2.4	3.9	3.4
Yield	1.6%	2.9%	4.2%

Source: Hardman & Co Research

Agriculture and Forestry

Source: Eikon Thomson Reuters

Market data

EPIC/TKR	OBT.
Price (p)	17.9
12m High (p)	22.5
12m Low (p)	13.5
Shares (m)	293.3
Mkt Cap ($m)	69.9
EV ($m)	92.8
Free Float*	40.5%
Market	AIM

**As defined by AIM Rule 26*

Description

Obtala is an African-focused agricultural and forestry business. It has majority interests in 314,965 hectares of 50-year forestry cutting concessions in Mozambique; in WBI, a global producer and trader of sawn timber with 96,851 hectares of concessions in Gabon; and in 1,735 hectares of leased land for farming in Tanzania.

Company information

Chairman	Miles Pelham
CEO	Paul Dolan
Deputy Chairman	Martin Collins

+44 (0)20 7099 1940
www.obtala.com

Key shareholders

Grandinex International	23.9%
Directors	10.7%
HSBC Global Nominees	8.2%
Basic Materials Ltd	6.8%
BNY Nominees	4.2%
James Capel Nominees	4.1%

Diary

June 2018	FY2017 Final Results

Analysts

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Obtala Ltd

Q3 2017 Announcement and Funding Update

Obtala's announcement of its Q3 2017 business update (29th September) highlighted the many activities underway across the Group. It was the first quarter of substantial revenue and production following the acquisition of WoodBois International in June 2017. The late commencement of the cutting season in Mozambique, and the late arrival of rains at the Group's agricultural operations in Tanzania, meant that revenues from the original Obtala businesses were immaterial for the period. Obtala also announced that it was in discussion to secure $25m in trade finance to support growth in its timber trading division.

- **Q3 2017:** The arrival of bulldozers and horizontal saws has led to growth in timber production; 15,000m^3 logs were harvested and 4,500m^3 of export grade sawn timber was produced in Q3 2017. On the agricultural side, the upgraded pack-house has come on-line and melons are being shipped via Mombasa.

- **Funding Update:** Obtala raised $2m through a further subscription for preference shares in Argento Ltd: HNWs, management and significant shareholders participated in the issue. Subsequently, Obtala ceased discussions with Jiangsu International Trading Co. Ltd and terminated the £4m equity and warrant subscription which was signed in May 2017.

- **Change of Advisor:** On the 16th October, Obtala announced the appointment of Northland Capital Partners Limited as Nomad and joint broker to the company. This decision follows the announcement by the LSE of its removal of ZAI Corporate Finance's Nomad status, Obtala's previous Nomad.

- **Risks:** Climate and biological risk along with fiscal, political and logistical risks are all standard in the forestry and agricultural sectors in Africa. As an emerging business, there will inevitably be an element of execution risk in implementing the business plan, but this is mitigated by experienced, in-country operational management teams.

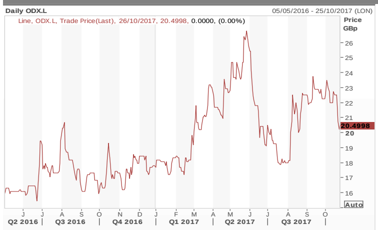
- **Investment Summary:** Obtala has an attractive portfolio of assets, complemented by strong management resources, a focused development strategy, including potential acquisitions. This mix should attract discerning investors.

Financial summary and valuation

Year end Dec	2015	2016E	2017E	2018E
Revenues ($m)	0.9	0.6		
EBITDA (adj) ($m)	-2.7	-3.8		
Pre-tax profit ($m)	-14.8	-5.3	Forecasts under review	
EPS (cents) (continuing)	-7.5	-1.7	following 1H 2017	
EPS (cents)	-7.8	-1.8	trading and financial report	
Biological Assets ($m)	174.5	174.5		
Net Cash ($m)	1.0	3.4		
Equity ($m)	91.1	87.1		

Source: Hardman & Co Research

Healthcare Equipment & Services



Source: Eikon Thomson Reuters

Market data

EPIC/TKR	ODX
Price (p)	20.5
12m High (p)	27.9
12m Low (p)	15.9
Shares (m)+	127.0
Mkt Cap (£m)	26.0
EV (£m)	22.7
Free Float*	81%
Market	AIM

**As defined by AIM Rule 26*

Description

Omega Diagnostics Group is a medical diagnostics business 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	6.2%
Private	12.9%
Legal & General	12.5%
Liontrust	6.9%
Octopus	5.3%
Mobeus	5.2%

Diary

14 Dec	Interim results

Analysts

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Omega Diagnostics Group

New distribution deals underpin the second half

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 and Infectious Disease – that are sold in over 100 countries. The Group offers steady low single-digit growth which is profitable and cash-generative. A placing and sale-and-leaseback has provided the funds to embark upon an accelerated growth strategy. A new US supply agreement to underpin sales traction for FoodPrint was recently announced; this should be followed shortly by a global distribution agreement with Immunodiagnostics for Allersys.

- **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 creating a number of high growth opportunities.
- **Trading update:** Underlying sales in 1H'18 have grown +1% to £7.11m (£6.83m) which was slightly shy of expectations. Key drivers were Food Intolerance (+4%) and Infectious Diseases (+5%), offsetting weakness in Allergy/Autoimmune (-11%). However, investment will result in a modest decline in first half profits.
- **Trading update:** Underlying sales in 1H'18 have grown +1% to £7.11m (£6.83m) which was slightly shy of expectations. Key drivers were Food Intolerance (+4%) and Infectious Diseases (+5%), offsetting weakness in Allergy/Autoimmune (-11%). However, investment will result in a modest decline in first half profits.
- **Allersys:** Having secured CE Mark for a menu for 40 allergens last year, progress has been made in expanding this list to 50-60 by the end of the current financial year. Moreover, it has paved the way to securing a global distribution agreement with Immunodiagnostics (IDH.L) which is expected to be signed shortly.
- **Investment summary:** Being an established player with a wide range of tests available globally makes ODX an attractive investment opportunity. Careful management of resources, boosted by the capital increase and the sale and leaseback, will result in an exciting period of new product launches which are expected to accelerate the growth trajectory of the Group in coming years.

Financial summary and valuation

Year end March (£m)	2013	2014	2015	2016	2017	2018E
Sales	11.26	11.59	12.11	12.74	14.25	14.98
EBITDA	1.05	1.75	1.67	1.66	1.55	1.69
Underlying EBIT	0.38	1.07	1.35	1.34	1.18	1.30
Reported EBIT	0.31	0.94	0.67	0.67	0.69	0.82
Underlying PBT	0.35	1.08	1.36	1.33	1.14	1.30
Statutory PBT	0.28	0.96	0.68	0.66	0.66	0.82
Underlying EPS (p)	0.77	1.19	1.30	1.14	1.09	1.15
Statutory EPS (p)	0.67	0.99	0.05	0.93	0.93	0.75
Net (debt)/cash	-1.19	2.37	1.42	0.89	0.31	2.53
Capital increases	0.00	3.75	0.00	0.00	0.00	3.10
P/E (x)	26.7	17.3	15.8	17.9	18.9	17.9
EV/sales (x)	2.0	2.0	1.9	1.8	1.6	1.5

Source: Hardman & Co Life Sciences Research

Oxford BioMedica

Second CAR-T approved

OXB is a specialist advanced therapy viral-vector biopharmaceutical company. It offers vector manufacturing and development services, whilst retaining proprietary drug candidates. OXB will also receive royalties on commercial therapies developed with its LentiVector® platform. The first such therapy, also the first CAR-T therapy ever to be approved, was licensed by the FDA on 30th August 2017: Kymriah™ is manufactured by Novartis using lentivirus vector supplied by OXB. This month, a second CAR-T called Yescarta™ (Gilead) was approved by the FDA: it is for a larger market, but is $0.11m cheaper per successful treatment.

- **Strategy:** Oxford BioMedica has four strategic objectives: delivery of process development services that embed its technology in partners' commercial products; commercial manufacture of lentiviral vector; out-licensing of proprietary candidates; and investment in R&D and the LentiVector platform.
- **Advanced therapies:** In recent months, gene therapies and gene-modified cell therapies have entered the global limelight: the first approval of a CAR-T therapy; Gilead's $12bn acquisition of US CAR-T biotech Kite Pharma; and the UK Government's announcement of focused investment in such therapies.
- **Second US approval:** In October, the FDA approved a second Chimeric Antigen Receptor T cell (CAR-T) therapy, Yescarta. This was attained by Gilead through acquisition of Kite Pharma, and is licensed for treatment of DLBCL (a type of lymphoma); a larger market than Kymriah's B-ALL (a paediatric leukemia).
- **CAR-T pricing:** OXB supplies vector for Kymriah and other Novartis CAR-T therapies. Key deal points are: $10m up-front; >$90m from a three-year minimum off-take contract; royalties on net sales. Kymriah is priced at $0.48m per treatment based on patient outcomes, whereas Yescarta is a fixed $0.37m.
- **Investment summary:** OXB is at an interesting juncture. Heavy investment in state-of-the-art GMP manufacturing facilities for production of gene therapy vector has enabled the deal with Novartis, placing the Group on the cusp of significant bioprocessing service income and royalties in the near future. We updated our DCF valuation from 7.5p/share to 10.3p/share on the back of Kymriah's approval. Forecasts suggest OXB will turn EBITDA positive in 2017.

Financial summary and valuation

Year end Dec (£000)	2014	2015	2016	2017E	2018E	2019E
Sales	13.62	15.91	27.78	38.80	47.00	54.00
EBITDA	-9.29	-11.73	-6.78	2.43	7.60	12.88
Underlying EBIT	-10.39	-13.35	-10.45	-2.01	3.16	8.45
Reported EBIT	-10.61	-14.08	-11.32	-2.97	2.10	7.28
Underlying PBT	-10.58	-16.25	-16.26	-6.69	-1.12	4.18
Statutory PBT	-10.80	-16.98	-20.31	-7.66	-2.18	3.01
Underlying EPS (p)	-0.42	-0.48	-0.45	-0.07	0.11	0.28
Statutory EPS (p)	-0.43	-0.51	-0.60	-0.10	0.08	0.25
Net (debt)/cash	13.20	-17.90	-19.05	-16.64	-14.09	-6.20
Shares issued	22.81	0.14	17.50	0.10	0.10	0.10
P/E (x)	-	-	-	-	76.4	30.7
EV/sales (x)	-	-	-	118.6	37.9	22.3

Source: Hardman & Co Life Sciences Research

Pharmaceuticals & Biotechnology

Source: Eikon Thomson Reuters

Market data

EPIC/TKR	OXB
Price (p)	8.6
12m High (p)	11.3
12m Low (p)	3.3
Shares (m)	3,106.3
Mkt Cap (£m)	267.1
EV (£m)	283.8
Free Float	65%
Market	LSE

Description

Oxford BioMedica is a UK-based biopharmaceutical company specializing in cell and gene therapies developed using lentiviral vectors, using gene-delivery vehicles based on virus particles. OXB also has a pipeline of therapeutic candidates and undertakes innovative pre-clinical R&D in gene-medicine.

Company information

CEO	John Dawson
CFO	Stuart Paynter
Chairman	Lorenzo Tallarigo

01865 783 000
www.oxfordbiomedica.co.uk

Key shareholders

Directors	0.8%
Vulpes	18.7%
M&G	18.0%
Aviva	7.3%
Joy Group	4.9%

Diary

12 Sep	Latest Hardman report
Aug-17	FDA approved CTL019
Mar-18	2017 FY results

Analysts

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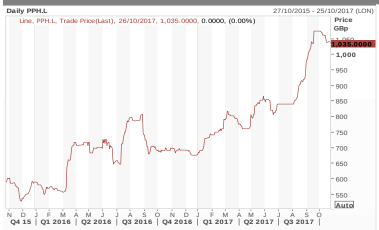
Travel & Leisure



Source: Eikon Thomson Reuters

Market data

EPIC/TKR	PPH
Price (p)	1040
12m High (p)	1130
12m Low (p)	652
Shares (m)	42.2
Mkt Cap (£m)	439
EV (£m)	1089
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	9%
Hargreave Hale	6%

Diary

Dec-17	Trading Update

Analysts

Steve Clapham 020 7194 7622
sc@hardmanandco.com

PPHE Hotel Group

Steady share price trend

PPHE recently reported interims above our expectations and we modestly increased forecasts for 2017/18. Current profitability is constrained by cost pressures (labour shortages in London, weak sterling and business rates) and by ongoing renovation in London and Amsterdam which means that full operational capacity will only be achieved in 2019. The Group has excess liquidity and is seeking investments, which we perceive positively given an outstanding track record. The rating remains extremely low for a Group with this record and asset backing. The multiples on earnings and asset bases are very low.

- **Interims:** The results surprised on the upside in spite of some significant cost pressures from business rate increases, labour shortages in London and the lower pound adding to costs. These will be a drag in H2 2017/18 and have limited our upgrades. Underlying trends remain positive.
- **Management Change:** Chen Moravsky, Deputy CEO & CFO, will resign from his executive roles, but continue as a non-executive at PPHE and at subsidiary, Arena, from 2018. Although a loss, management stressed the strength and depth of the team, and a replacement is being recruited. The shares were little changed.
- **Strategy:** The Group has a high growth trajectory from a combination of excellent assets, shrewd acquisitions of development sites and existing assets, and renovation of older properties. Its expansion in Croatia and substantial liquidity offer the opportunity for incremental growth.
- **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, even before the Waterloo deal. The real value is *c*£18 per share with further upside in prospect. 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 the Group has now realised further cash. The asset value continues to grow, and the multiples, especially price:book, are low for a company of this quality and record. Further deals should generate investor interest.

Financial summary and valuation

	2015	2016	2017E	2018E
Sales	169.3	272.5	323.0	338.0
EBITDA	80.1	94.1	105.8	112.0
Operating profit	61.0	68.8	71.8	76.0
Underlying PBT	29.8	31.7	30.8	36.3
EPS (p)	71.5	67.9	62.2	71.7
DPS (p)	20.0	121.0	23.0	25.0
Net (debt)/cash (€m)	-397.7	-590.2	-562.8	-518.8
Net debt/EBITDA (x)	5.0	6.3	5.3	4.6
P/E (x)	14.5	15.3	16.7	14.5
EV/Sales (x)	4.9	3.8	3.1	2.8
EV/EBITDA (x)	10.4	11.6	9.8	8.9

Source: Hardman & Co Research

Pharmaceuticals & Biotechnology

Source: Eikon Thomson Reuters

Market data

EPIC/TKR	NIPT
Price (p)	8.0
12m High (p)	14.4
12m Low (p)	6.9
Shares (m)	321.2
Mkt Cap (£m)	25.7
EV (£m)	31.9
Free Float*	72%
Market	AIM

As defined by AIM Rule 26

Description

Premaitha 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	23.9%
Helium Rising Stars	7.4%
Harwood Capital	5.3%
Ken Chang	4.0%
Calculus Capital	3.9%
Hargreave Hale	3.8%

Diary

17 Mar	Hardman report
Nov-17	Patent judgement
Dec-17	Interims

Analysts

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Premaitha Health

Potential court decision in November

Premaitha uses the latest advances in DNA sequencing technology for non-invasive prenatal screening tests. Its IONA test 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. Premaitha is developing a strong business in territories less accessible to Illumina with strong growth in the number of tests being performed, thereby de-risking the business. The patent defence was heard in the High Court in July, after which the judge indicated that judgement was likely to be announced during November.

- **Strategy:** Premaitha is focused on the global commercialisation of its flagship IONA non-invasive prenatal screening test (NIPT), which uses the latest DNA analysis technology to predict certain foetal abnormalities. This technology has the potential for expanded use in other aspects of reproductive health.

- **Trading update:** Along with fiscal 2017 results, management provided the market with a trading update for 1H'18. The number of tests performed/sold was in excess of 23,000, which was close to the 24,000 tests for the whole of fiscal 2017, and generating sales in the order of £2.5m.

- **Geographic spread:** In fiscal 2017, sales were derived from the UK (33%), EMEA (63%) and with just one-month contribution from Yourgene, APC (4%). More labs have recently been signed in the Middle East, making it an increasingly important contributor. For fiscal 2018, the spread of activity is likely to be nearer UK (10%), EMEA (40%) and APAC (50%), significantly de-risking the business.

- **Illumina:** Three months have passed since the patent defence hearing in the High Court, and judgement is expected during the next month. In our opinion, whichever party loses this first case is likely to take the outcome to appeal.

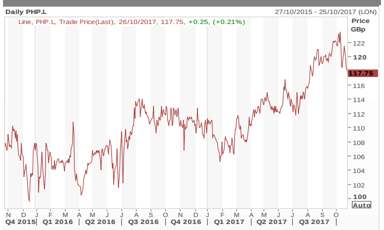
- **Investment summary:** Premaitha continues to broaden its prenatal screening capability internationally, and with the launch of Sage, it is keeping at the forefront of technology. There are significant upcoming opportunities in Europe which would have a positive effect if won by IONA. Acceleration of the business by means of test throughput, while tightly controlling costs, is improving the margins and moving the company much closer to cashflow breakeven.

Financial summary and valuation

Year end March (£m)	2015	2016	2017	2018E	2019E	2020E
Sales	0.00	2.45	3.08	10.90	28.11	51.54
EBITDA	-4.08	-5.32	-5.06	-3.20	4.51	16.00
Underlying EBIT	-4.34	-5.87	-5.80	-3.99	3.66	15.06
Reported EBIT	-7.54	-11.83	-7.60	-4.32	3.33	14.73
Underlying PBT	-7.45	-5.96	-6.04	-4.26	3.38	14.82
Statutory PBT	-7.45	-12.12	-7.85	-4.59	3.05	14.48
Underlying EPS (p)	-4.90	-2.71	-2.56	-1.33	1.00	4.15
Statutory EPS (p)	-4.08	-2.14	-1.94	-1.07	0.81	3.35
Net (debt)/cash	2.71	2.20	-6.20	-13.28	-10.03	6.20
Capital increases	7.48	7.72	10.61	1.64	0.00	0.00
EV/sales (x)	-	-	10.4	2.7	1.1	0.6
EV/EBITDA (x)	-	-	-	-	6.3	1.9

Source: Hardman & Co Life Sciences Research

Real estate



Source: Eikon Thomson Reuters

Market data

EPIC/TKR	PHP
Price (p)	118
12m High (p)	121
12m Low (p)	105
Shares (m)	598
Mkt Cap (£m)	717
EV (£m)	1,475
Market	Main, LSE

Description

A REIT acquiring and owning modern primary medical properties in UK; expanding into Republic of Ireland.

Company information

CEO	Harry Hyman
CFO	Richard Howell
Chairman	Alun Jones

020 7451 7050
www.phpgroup.co.uk

Key shareholders

Directors	2.6%
Investec Wealth	5.2%
Blackrock	5.0%
Unicorn	4.5%
CCLA	3.9%

Diary

24 November 17	Dividend pay
Mid Jan 18	Ex dividend
Feb 18	Final results

Analyst

Mike Foster 020 7194 7633
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Primary Health Properties

Good execution of low-risk growth strategy

PHP's income stream is effectively 100% from the Government and all assets are purpose-built and modern. This has at least two implications compared with the substantial number of residential REITs being floated. First, Government income streams enable LTVs slightly higher than non-Governmental (and PHP targets up to 60%); this is a more efficient balance sheet than many with lower ratios. Secondly, the end-value at the end of the lease will remain strong.

- **Strong platform:** Leases have an average 20 years left to run, with upward only rent reviews applicable to all leases. PHP has twenty years' dividend growth under its belt – raising the pay-out each year since flotation. It currently is seeing low (*c*1.5%) rent rises but we see this accelerating (come what may in the broader economy), with geared benefits to dividend payment capacity.
- **Growth:** On 9th October, Stenhousemuir Medical Centre was bought for £8.6m (it has a patient list of 19,000). This is a major asset and is in line with the PHP policy of acquiring such larger types of facility. We maintain our estimate of £100m of acquisitions this year and a similar amount next year. After a slow H1 2017, there is good momentum and PHP confirms a strong ongoing pipe-line. The financial implications are that PHP is investing proceeds of a 2016 equity raise and optimising its balance sheet, with the acquisitions being EPS accretive. All is as planned.
- **Growth: O**n 18th September, PHP had announced a further acquisition. It is a modern, purpose-built primary care centre in Chelmsley Wood, Birmingham for a total consideration of £4.7m. It is located within a new wider community -led development, which also includes a school, a dental practice and a pharmacy.
- **Risks**: There is neither rental-income nor void risk. Now that debt cost is so low (5-year swaps at 1%, 10-year swaps at 1.4%), we understand the policy is to lengthen the debt profile, thereby reducing risk whilst still lowering debt cost.
- **Investment summary:** In the past ten years, UK primary healthcare assets have returned a CAGR of just over 7%, against all property of some 4.5%. PHP has fully kept up with this rise: TSRs over the past one and two years have exceeded 10%. From here, the portfolio is set fair with accelerating rent rises and falling cost of finance.

Financial summary and valuation

Year end Dec (£m)	2014	2015	2016	2017E	2018E
Income	60.0	63.1	67.4	72.5	78.8
Finance cost	(35.5)	(33.7)	(32.5)	(32.0)	(35.8)
Declared profit	36.9	56.0	43.7	68.8	47.2
EPRA PBT (Adj.)	18.2	21.7	26.7	31.8	33.9
EPS Reported (p)	8.3	12.6	7.8	11.5	7.9
EPRA EPS (Diluted) (p)	4.1	4.8	4.7	5.3	5.7
DPS (p)	4.875	5.000	5.125	5.250	5.400
Net (Debt)	(655.2)	(694.7)	(663.2)	(758.1)	(851.8)
Dividend yield (%)	4.2	4.3	4.4	4.5	4.6
Price/EPRA NAV	1.50	1.37	1.32	1.23	1.19
NAV (p)	69.6	77.4	83.5	89.9	93.2
EPRA NAV (p)	79.6	87.5	91.1	97.3	100.6

Source: Hardman & Co Research

Software & Computing services

Source: Eikon Thomson Reuters

Market data

EPIC/TKR	PURP
Price (p)	345
12m High (p)	515
12m Low (p)	105
Shares (m)	270
Mkt Cap (£m)	930
EV (£m)	870
Free Float*	72%
Market	AIM

**As defined by AIM Rule 26*

Description

Estate agent using a novel hybrid model: online-local expert agents. Currently 90% of revenues are from the UK. Opened in Australia and now in the US.

Company information

CEO, Founder	Michael Bruce
CFO	James Davies
Chairman	Paul Pindar

0800 810 8008
www.purplebricks.com

Key shareholders PRE placing

Directors	26.8%
Woodford trusts	27.5%
Michael Bruce (CEO)	13.8%
Old Mutual (historic data)	10.3%
Capital Research Glob. Inv.	7.8%
Paul Pindar (director)	4.3%
Kenneth Bruce (director)	3.7%

Diary

Early December	Interim results

Analyst

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Purplebricks

All on target

The UK sector, ex-Purplebricks, is faring badly in agency sales, with sluggish sales and price competition. Purplebricks is gaining market share and it is much more efficient so is much better value to clients – undercutting the competition. Late in 2016, the negative sentiment surrounding UK estate agents impacted Purplebricks' share price - ahead of its quadrupling. We do not see a further quadrupling but this false read-across is important to recognise. Purplebricks is now in three countries. On 15th September, Purplebricks gave details of its exciting US proposition, launching first in Los Angeles then spreading to rest of California.

- **ASA ruling:** On 18th October, it was ruled that TV adverts did not make it clear enough to the average consumer that the flat fee was payable to Purplebricks in all instances. Prior to air, the adverts had gone through the proper approvals process, including the official clearance body, Clearcast, who have continued to support their original judgement with the ASA.
- **BBC and ASA**: Purplebricks was the subject of two negative BBC features on 2nd August. These are minor issues now dealt with and the ASA saw one complaint ruled in favour of Purplebricks, so the ASA is – we consider – a non-issue.
- **Successful model**: The sector-wide pressure continues and UK markets are not strong. At the time of the results announcement, we raised our UK sales estimates for FY 2018E from £61m to £80m, on guidance provided by Purplebricks. For 2019E, we are forecasting: UK sales of *c*£105m, Australia of £21m; for the US, it is too early to quantify confidently but our numbers exceed £40m. EBITA: UK £19.0m; Australia nil; US loss of £12m.
- **Risks:** Rapid growth and expansion continues globally. Clearly, expansion has risks but we consider them to be the money invested into marketing and brand/capability building. With near-tech-style gross margins of *c*60%, the risks - given the strong cash balances - are modest: the real risks are time-related.
- **Investment summary:** For 2019E, we highlight that US start-up losses are a significant feature. In 2020E, in both Australia and especially US, margins will be below the long-term target due to relative immaturity. US will roll out into other states and this will depress Group profits for some while. The UK roll-out has clearly been a success. In the US, there have been unsuccessful attempts at PURE on-line broker models. Within six months, we will have evidence of Purplebricks' US performance. That's the whole point: Purplebricks' HYBRID model works.

Financial summary and valuation

Year end Apr (£m)	2015	2016	2017	2018E	2019E
Sales (£m)	3.4	18.6	46.7	100.0	167.0
EBITDA pre share based	(5.4)	(9.7)	(4.5)	(10.5)	7.0
Operating profit (£m)	(5.4)	(9.8)	(4.7)	(12.0)	7.0
PBT (£m)	(5.4)	(9.8)	(4.7)	(12.0)	7.0
EPS (Adj., pre share based) (p)	na	(11.2)	(1.9)	(4.4)	2.4
DPS (p)	-	-	0.0	0.0	0.0
Net (debt)/cash (£m)	4.6	30.5	71.3	57.0	64.0
Net debt/EBITDA (x)	cash	cash	cash	cash	cash
P/E (x)	na	na	na	na	144.0
EV/Sales (x)	na	41.6	18.9	8.7	5.4
EV/EBITDA (x)	na	na	na	na	124.0
Div Yield (%)	0.0	0.0	0.0	0.0	0.0

PBT is PRE share based payments *Source: Hardman & Co Research*

Food Producers

Source: Eikon Thomson Reuters

Market data

EPIC/TKR	RE.
Price (p)	331.4
12m High (p)	385.0
12m Low (p)	238.0
Shares Ord (m)	40.5
Shares Prefs (m)	72.0
Mkt Cap Ord (£m)	134.2
Mkt Cap Pref (£m)	75.2
EV ($m)	530.8
Free Float*	33.8%
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	Carol Gysin
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

April 2018	FY 2017 Final Results

Analysts

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Tom Wigglesworth 020 7194 7622
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R.E.A. Holdings

Placing of Preference Shares

In REA's H1 2017 report, published on the 22nd September, it was stated that, "to the extent the markets permitted, it would seek to refinance a proportion of the £8.3 million nominal of 9.5% sterling notes" due for redemption on the 31st December 2017. It was announced on the 9th October that Guy Butler Limited had placed 'firm for cash' 8.4 million new 9% cumulative preference shares of £1 each, at a price of £1 per share plus the accrued dividend up to the date of settlement. It was announced on the 16th October that the admission had become effective and the total number of 9% Prefs. in issue is 72 million.

- **Placing:** 8,358,768 new 9% cumulative preference shares, at a price per share of £1 plus accrued dividend up to the date of settlement, were admitted to trading. The Group also purchased £248,000 nominal of 2017 sterling notes at 100% of their principal amount, together with accrued interest.
- **Palm Oil Price:** In October, the price climbed from $700/tonne to $740/tonne (CIF Rotterdam), tracking gains in soybean oil which have been driven by biofuel policy in the US. This spot price is above the average received price used in the financial model (when adding a $120/tonne premium for CIF Rotterdam).
- **Valuation:** Using an Indonesian risk-biased WACC of 12.2%, a valuation range of £4.44 - £4.76 per share is suggested (on the basis of our long-run projections for cash flows), depending on the terminal growth rate applied. The WACC makes no adjustment for REA being listed on the London Stock Exchange.
- **Risks:** Agricultural risk, commodity price risk, and country risk are constants of palm oil production. H1 2017 net debt of $235.5m (79.4% of total equity), will grow further as the project moves towards completion. However, REA has options, which - if exercised - could markedly strengthen its balance sheet.
- **Investment summary:** REA has some 25,000 ha still to develop. With gearing projected at 89.4% for year-end 2017, choices may have to be made. The hint 'tucked away' at the end of the Financing section of the Chairman's interim statement may be significant: "exploring the possible divestment of certain outlying plantation assets… would materially reduce the group's overall borrowings".

Financial summary and valuation

Year end Dec ($m)	2015R	2016	2017E	2018E
Sales	90.5	79.3	103.2	124.7
EBITDA	14.1	16.8	21.4	37.9
Reported EBIT	-6.6	-5.0	-2.5	13.1
Pre-tax Profit	-12.2	-9.3	-24.4	-2.0
EPS (cents)	-59.0	-48.2	-72.9	-25.4
Adj. EPS (cents) **	-11.2	1.4	-	-
Dividend per share (p)	0.0	0.0	0.0	0.0
Net (debt)/cash	-196.7	-205.1	-249.4	-256.8
P/E (x)	-	-	-	-
Planted Hectares (ha)	37,097	42,846	45,846	48,846
EV/Planted Hectare ($/ha) *	13,381	11,839	11,846	11,119
CPO Production (mt)	161,844	127,697	155,370	183,616

**EV/Planted Hectare includes Mkt Cap of the 9% Pref. Shares and 15% DSN Stake*
*** An estimate of earnings before applying the IAS 41 amendment*

Source: Hardman & Co Research

Pharmaceuticals & Biotechnology

Source: Eikon Thomson Reuters

Market data

EPIC/TKR	SCLP
Price (p)	13.0
12m High (p)	17.0
12m Low (p)	9.7
Shares (m)	312.1
Mkt Cap (£m)	40.6
EV (£m)	33.2
Free Float*	78%
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, ImmunoBody and Moditope, with the potential to be used as therapeutic cancer vaccines.

Company information

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

Key shareholders

Directors	6.0%
Calculus Capital	16.1%
Share Nominees	7.8%
Hargreaves Lansdown	7.2%
Barclayshare Nominees	5.8%
Legal & General	5.1%

Diary

10 Oct	AGM
3Q-17	SCIB1 IND submission
2018	US SCIB1 Phase II
2018	Modi1 Phase I

Analysts

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gp@hardmanandco.com

Scancell Holdings

Change at the top

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. Results provided an update on the SCIB1 clinical study and future plans to progress SCIB2 and Moditope to the next development stage.

- **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.

- **Results:** During fiscal 2017, management has been preparing for the next stage of clinical development of SCIB1, SCIB2 and Modi-1. In 2017, the cash burn was -£3.84m, mostly related to R&D investments, leaving the company with just under £2.7m cash subsequently boost by the £5m Placing (£4.7m net proceeds).

- **Clinical trials:** Encouraged by the exceptional results from its SCIB1 Phase I/II trial in Stage III/IV melanoma patients, Scancell has been preparing additional clinical studies, using both proprietary platforms. An IND for a Phase II trial using SCIB1 in combination with a checkpoint inhibitor is set to be submitted in 1Q'18.

- **New CEO:** Having been with Scancell for 17 years, Richard Goodfellow is moving from CEO, but will remain on the Board. His successor is Dr Cliff Holloway who has >25 years' experience in the life sciences having held executive management and directorship roles in biopharmaceutical/diagnostics industries over this period, in the development and commercialisation of emerging technologies.

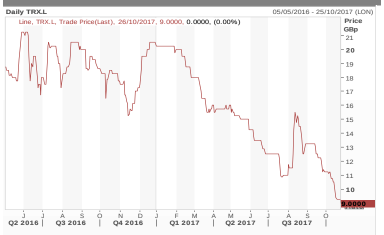
- **Investment summary:** Scancell is trading on an EV of £33m, compared to a cumulative investment of ca.£29m to get the company where it is today, very low compared to relevant peers. Its proprietary technologies are in the 'hot' area of immuno-oncology. Given that big pharma is willing to pay handsomely for such validated assets, we see considerable upside potential in the shares.

Financial summary and valuation

Year end April (£m)	2015	2016	2017	2018E	2019E	2020E
Sales	0.00	0.00	0.00	0.0	0.0	0.0
R&D investment	-2.12	-2.01	-2.77	-6.0	-9.7	-7.6
Underlying EBIT	-2.87	-3.01	-4.50	-7.9	-11.8	-10.4
Reported EBIT	-2.96	-3.04	-4.55	-8.0	-11.9	-10.4
Underlying PBT	-2.74	-2.99	-4.44	-7.9	-11.7	-10.3
Statutory PBT	-2.83	-3.03	-4.50	-7.9	-11.8	-10.4
Underlying EPS (p)	-1.03	-1.12	-1.34	-1.7	-2.1	-1.9
Statutory EPS (p)	-1.07	-1.14	-1.36	-1.7	-2.1	-1.9
Net (debt)/cash	3.06	6.53	2.67	14.9	4.4	-4.0
Capital increase	0.00	5.79	0.00	19.1	0.0	0.0
P/E (x)	-	-	-	-	-	-
EV/sales (x)	-	-	-	-	-	-

Source: Hardman & Co Life Sciences Research

Pharmaceuticals & Biotechnology



Source: Eikon Thomson Reuters

Market data

EPIC/TKR	TRX
Price (p)	9.3
12m High (p)	21.0
12m Low (p)	9.0
Shares (m)	1,161.8
Mkt Cap (£m)	107.5
EV (£m)	84.5
Free Float*	27%
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 – that can be used to repair diseased or worn-out body parts. Its products have multiple applications.

Company information

CEO	-
CFO	Paul Devlin
Chairman	John Samuel

+44 330 430 3052
www.tissueregenix.com

Key shareholders

Directors	4.9%
Invesco	29.0%
Woodford Inv. Mgmt.	25.1%
IP Group	13.8%
Baillie Gifford	4.3%

Diary

8-Aug	Completion CellRight
10-Aug	Hardman CellRight report
12-Sep	Capital markets day

Analysts

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gp@hardmanandco.com

Tissue Regenix

Change at the top

TRX has a broad portfolio of regenerative medicine products developed from decellularised human and porcine soft tissues for the wound-care, orthopaedics, and cardiac markets. Since the launch of DermaPure, the focus has been on increasing penetration of the US wound-care market. In July 2017, TRX acquired CellRight Technologies, which brings synergistic bone regeneration technology. The 2017 full-year results will contain five months of the enlarged equity and be the first to reflect the impact of the acquisition. Following the unexpected stepping down of the CEO, the Chairman is taking on an executive role on a temporary basis.

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

- **Interims**: TRX reported 1H 2017 results to the end of June 2017 which excluded CellRight: sales, at £1.38m, beat our forecast by +£0.20m. Net cash was better than expected at £3.61m on 30th June, subsequently strengthened by the £40m capital increase for working capital and the acquisition of CellRight.

- **Acquisition:** TRX completed the acquisition of CellRight Technologies in San Antonio, Texas post June 2017 for $30m/£23m, giving TRX immediate greater exposure to the US orthopaedic market. TRX paid 4.4x prospective EV/sales and 12.5x EV/EBITDA for CellRight, which has traded profitably since 2014.

- **CEO:** The market was taken by surprise with the announcement that the long-time CEO was stepping down with immediate effect. The Board has commenced the search for a suitable replacement. Meanwhile, the non-executive Chairman, John Samuel, will assume an Executive role temporarily.

- **Investment summary:** TRX is building commercial momentum through three clear value -drivers: sales of DermaPure in the US; regulatory submission of OrthoPure XT in the EU; and agreement of a joint venture for commercialisation of wound-care and cardiac products in Europe. CellRight will boost FY 2017 figures and will accelerate the time to reach sustainable profitability and cash

Financial summary and valuation

Fiscal year (£000)	*2015	*2016	+2016	++2017E	++2018E	++2019E
Sales	100	816	1,443	6,710	16,594	25,267
EBITDA	-8,038	-9,861	-10,549	-12,535	-9,000	-4,962
Underlying EBIT	-8,189	-10,106	-10,850	-12,948	-9,480	-5,457
Reported EBIT	-8,369	-10,242	-11,060	-14,198	-9,750	-5,747
Underlying PTP	-8,021	-9,893	-10,736	-12,805	-9,415	-5,417
Statutory PTP	-8,201	-10,029	-10,946	-14,055	-9,685	-5,707
Underlying EPS (p)	-1.2	-1.3	-1.3	-1.3	-0.7	-0.4
Statutory EPS (p)	-1.2	-1.3	-1.3	-1.4	-0.7	-0.4
Net cash/(debt)	10,257	19,907	8,173	8,661	9,827	3,579
Shares issued	5	19,019	0	35,500	12,000	0
P/E (x)	-	-	-	-	-	-
EV/sales (x)	-	-	-	16.4	6.5	4.0

**Year to January; +11-months to December; ++12-months to December*
Source: Hardman & Co Life Sciences Research

Pharmaceuticals & Biotechnology

Source: Eikon Thomson Reuters

Market data

EPIC/TKR	VAL
Price (p)	1.00
12m High (p)	7.65
12m Low (p)	0.93
Shares (m)	203.96
Mkt Cap (£m)	2.04
EV (£m)	2.33
Free Float*	95%
Market	AIM

**As defined by AIM Rule 26*

Description

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

Company information

CEO	Dr Satu Vainikka
CFO	Gerry Desler
Chairman	Oliver de Giorgio-Miller

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Key shareholders

Directors	1.4%
Nicholas Slater	3.5%
Yorkville	1.8%

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4Q-17	Read-out VAL201
4Q-17	Read-out VAL401

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ValiRx

VAL401 Phase II trial completed

ValiRx is a clinical-stage biopharmaceutical company focused on the development of therapeutics for the treatment of cancer, associated biomarkers and companion diagnostics. The Company's two leading assets are in clinical trials: VAL201 (Phase I/II) – a peptide for advanced prostate cancer and potential to treat other hormone-induced indications; and VAL401 (Phase II) – a novel reformulation of risperidone, in trials for lung cancer. The Phase II trial with VAL401 in non-small cell lung cancer patients has now been completed. Data are currently being processed and first figures show positive pharmacokinetic data. Final read-out is expected by year-end.

- **Strategy:** ValiRx operates as a virtual business, out-sourcing most of its activities. The core strategy is to develop its therapeutic assets through the clinical pathway and seek a partner/licensing deal to complete the development programme and regulatory submissions to commercialise the products.

- **US patent allowance:** ValiRx received the fifth patent allowance in the US, for method-of-treatment, covering the use of VAL401 in the treatment of prostate adenocarcinoma. This expands the existing protection in the US and other regions (Australia, NZ); further patents are pending across other territories.

- **VAL401 Phase II:** Recruitment into the trial has been completed and data processing and analysing has commenced. Early pharmacokinetic results suggest significant and anticipated differences of the active ingredient, risperidone, and its metabolite compared to the conventionally formulated drug.

- **VAL401:** The Phase II product VAL401 is a proprietary complex formulation of the anti-psychotic drug risperidone, being developed for late stage and metastatic non-small cell lung cancer. The formulation allows cellular absorption and inhibits cell growth and resistance. Read-out is expected at the year-end.

- **Investment summary:** ValiRx is undervalued. The reason for this is certainly its need for more capital to advance its clinical programmes, thereby building value. Given the clinical progress seen to date, the company should be attracting potential commercial partners and/or institutional investors in order to achieve the real value of its assets.

Financial summary and valuation

Year end Dec (£000)	2014	2015	2016	2017E	2018E	2019E
Sales	88	83	0	0	0	0
SG&A	-1,514	-1,645	-1,666	-1,750	-1,837	-1,929
R&D	-1,772	-1,543	-2,375	-2,850	-3,421	-4,105
EBITDA	-2,958	-2,877	-3,939	-4,502	-5,155	-5,936
Underlying EBIT	-2,958	-2,888	-3,949	-4,508	-5,165	-5,941
Reported EBIT	-3,138	-3,029	-3,987	-4,734	-5,399	-6,182
Underlying PBT	-2,952	-2,889	-5,531	-4,622	-5,292	-6,092
Statutory PBT	-3,641	-2,567	-5,569	-4,848	-5,525	-6,332
Underlying EPS (p)	-10.5	-7.7	-8.2	-3.4	-3.3	-3.8
Statutory EPS (p)	-13.5	-6.7	-8.2	-3.6	-3.5	-3.9
Net (debt)/cash	453	232	-734	-3,224	-8,073	-13,564
Capital increases	2,510	2,681	2,615	1,090	0	0

Source: Hardman & Co Life Sciences Research

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