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The Monthly

September 2018

Feature article:

Quoted companies can adjust to the post-MIFID II world

By Tim Ward, CEO of the Quoted Companies Alliance

Hardman & Co clients

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September's Hardman Monthly features an article from guest contributor, Tim Ward. Tim is the Chief Executive of the Quoted Companies Alliance (QCA), an organisation that champions the interests of small to mid-size quoted companies.

The QCA is known as an authoritative voice in the capital markets space for mid and small-cap companies.

This article highlights the concerns that research coverage of small- and mid-cap will shrink as a direct consequence of MiFID II, a fear that seems to be borne out by the recent QCA survey. The article goes on to suggest ways that companies might respond to the challenge, particularly highlighting company websites. Tim also outlines the requirement for a governance code for AIM companies from 28 September and the importance of transparency for investors.

Last month's publications

Date	Company	Sector
1 Aug	**Alliance Pharma (APH):** 2018: a year of international progress	Life Sciences
2 Aug	**Primary Health Properties (PHP):** Robust 1H results	Real Estate
2 Aug	**Tissue Regenix (TRX):** 1H'18 preview: organic plus inorganic growth	Life Sciences
9 Aug	**Non-Standard Finance (NSF):** 1H'18 results: jam today, more tomorrow	Financials
14 Aug	**Oxford BioMedica (OXB):** Risk-sharing in cystic fibrosis gene-therapy	Life Sciences
16 Aug	**MiFID II Monitor:** Assessing the impact so far	Hardman & Co
24 Aug	**Civitas Social Housing (CSH):** Housing security	Real Estate
29 Aug	**Advanced Oncotherapy (AVO):** Treatment planning system agreement	Healthcare Equipment & Services

Source: Hardman & Co Research

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Quoted companies can adjust to the post-MIFID II world

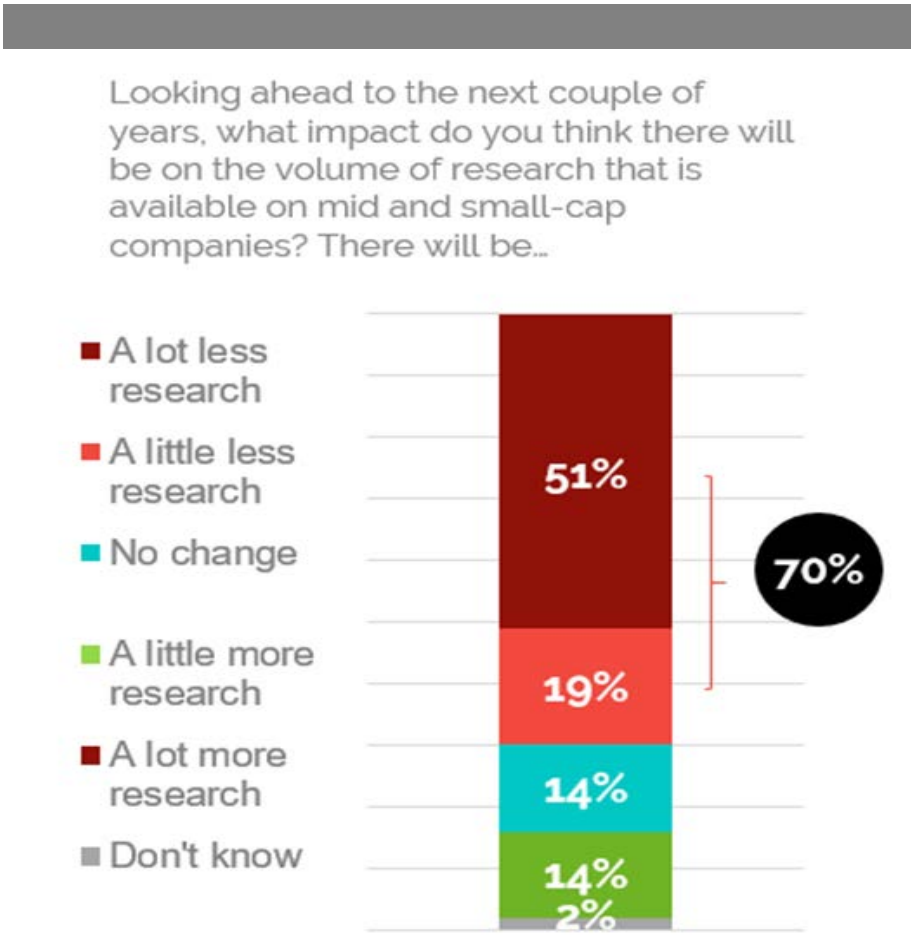
by Tim Ward, CEO of the Quoted Companies Alliance

2018 is proving to be a year of much change for the UK markets, and 2019 is likely to be no different – but maybe for different reasons. The market is adjusting to the changes that MiFID II is causing, but the Quoted Companies Alliance (QCA) – alongside Hardman & Co – sees proactive actions that can be taken by companies to mitigate any negative impact.

As the QCA's most recent Small & Mid-Cap Sentiment Index (August 2018) showed, while small and mid-size quoted companies are reserved on their outlook for the UK economy, they are also optimistic about their own prospects, confident that they can ride out, and even thrive in, any upcoming periods of political and economic uncertainty. We believe, though, that companies need to be conscious of the steps they have to take to differentiate themselves in this fast-changing world, paying particular attention to visibility with investors – institutional and private.

Hardman & Co's August 2018 update – MiFID II Monitor: Assessing the impact so far – provides some timely analysis of the first six months of MiFID II and its impact on the UK markets. The research shows that, since MiFID II has come into effect, liquidity has fallen 9.8% on the London Stock Exchange (LSE) Main Market, and the analyst count is down 4.7%. This may well be an early indicator of what many fear would be a result of the EU Directive – namely a negative impact on liquidity and a reduction in research coverage of many segments of the market.

A separate, recently released QCA survey of small and mid-size company investors (April 2018) also indicates that MiFID II may be living up to the expectations of those who predict it will be the single most impactful change on public markets for the last 10 years. The survey points to MiFID II resulting in a decrease in both the volume and quality of research into small and mid-size quoted companies. 70% of respondent investors stated that they believe MIFID II will result in less research being produced on small- and mid-cap companies in the future. Nearly half (48%) already see less research being produced in these companies, and 45% think that MIFID II will result in lower-quality research on these companies.



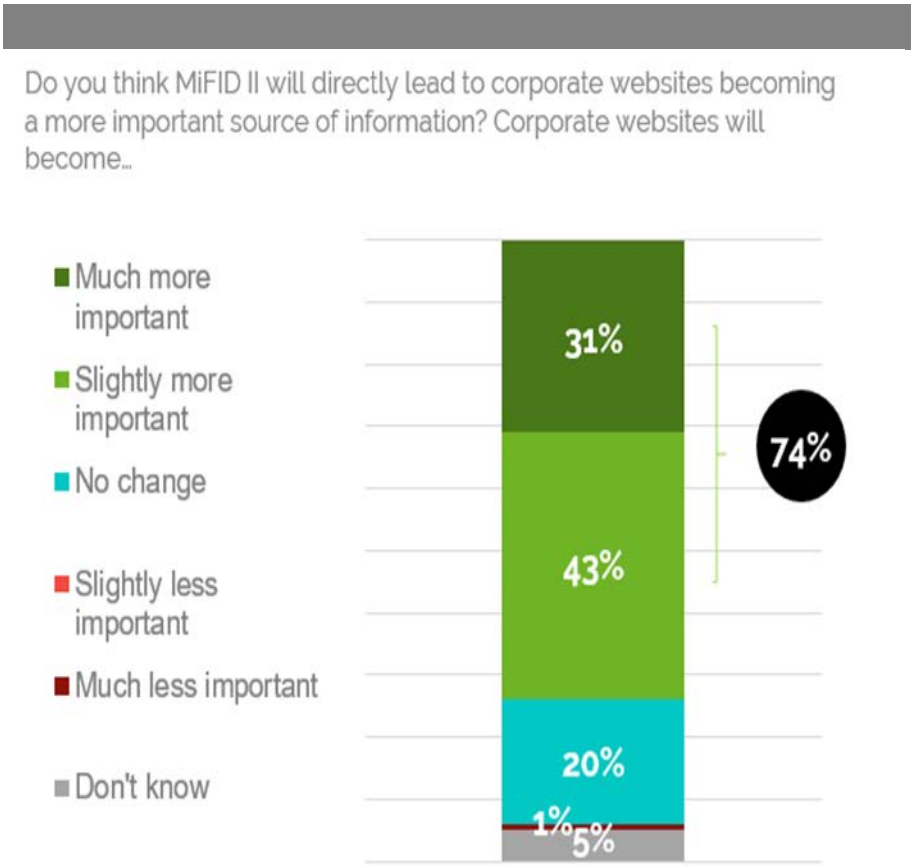
Source: QCA, Peel Hunt Peel Hunt Mid & Small Cap Investor Survey 2018

This decline in research is an issue for companies, especially those outside the largest bracket, but what can be done?

Hardman & Co's MiFID II Monitor suggests a number of actions that companies can take to mitigate the impact and better engage with investors – including commissioning independent research. Its authors state, "Investors have a huge choice when deploying their money (the LSE alone has 2,025 quoted companies), and managements must gain their attention – and, perhaps more importantly, earn their trust."

A number of these actions are also being recommended by the QCA to its member companies – who are typically small and mid-size quoted companies. In particular, we are advising companies that improving their corporate websites is an important step to take. No longer should the investors' page be found only by scrolling to the bottom of the "Home Page" and finding the word "Investors" next to "Site Map".

Our recent investor survey backed this up, with 74% of small- and mid-cap investors stating that they see corporate websites becoming more important as a (or the) primary source of information on companies.



Source: Source: QCA, Peel Hunt Peel Hunt Mid & Small Cap Investor Survey 2018

Companies need to better utilise their websites as a place for investors to easily find clearly signposted and up-to-date information about them.

A separate development for AIM companies provides another reason and incentive to do this. From 28 September 2018, all companies on AIM will need to update their websites to state which corporate governance code they apply and how they do so. This is something that was not required before.

We do not have any "official" data yet, but our own research and surveying of NOMADs indicate that the majority of AIM companies are choosing to adopt our own QCA Corporate Governance Code.

In applying the QCA Corporate Governance Code, companies need to publish a corporate governance statement on the website and make a number of disclosures about their companies' business models and how they are run. This can help companies set themselves apart by ensuring they are providing the best information they can about themselves.

We believe this development will help investors compare differences and find the best companies.

As Gervais Williams, Senior Executive Director at Miton Group Plc (and QCA Chairman), says in Governance magazine (April 2018), "…the higher profile of corporate governance codes like the QCA's should continue to help investors correctly pick out the quoted companies with the best internal cultures."

Companies need to ensure that investors can quickly and easily find what they are looking for. They need to present their investment case in an accessible and simple manner. This will, at the very least, encourage such investors to seek to learn more about a company, to follow it and potentially invest. After all, companies are seeking investors that want to buy into the long-term sustainable success of their business model.

About the author

Tim Ward is CEO of the Quoted Companies Alliance, the independent membership organisation championing the interests of small and mid-size quoted companies.

His past roles have included Head of Issuer Services at the London Stock Exchange, Finance Director at FTSE International, the index company, and various management roles at a smaller quoted company.

Tim is a Chartered Accountant, has an MBA from Henley Business School and is a qualified executive coach and mentor.

The surveys referenced in this article can be found on the QCA website – www.theqca.com.

Company research

Priced at 24 August 2018 (unless otherwise stated).

Financials

Source: Eikon Thomson Reuters

Market data

EPIC/TKR	**OPM**
Price (p)	53.0
12m High (p)	55.0
12m Low (p)	42.0
Shares (m)	83.8
Mkt Cap (£m)	44.4
EV (£m)	43.5
Free Float*	38%
Market	AIM

**As defined by AIM Rule 26*

Description

1pm is a finance company/broker providing over 16k 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
Chair	John Newman
	+44 1225 474230
	www.1pm.co.uk

Key shareholders

Lombard Odier (31/05/18)	22.84%
Sapia Partners (27/06/18)	13.01%
Ronald Russell (director 27/10/17)	12.25%
Mike Nolan (director 31/05/18)	6.30%
Charles Stanley (31/05/18)	3.53%

Diary

Early Sep	IFRS 9 update
12 Sep	FY'18 results
25 Oct	AGM

Analyst

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1pm plc

Delivering growth, integration and synergy benefits

We reviewed 1pm in detail in "Financing powerhouse: a lunchtime treat", and its interim results in "Delivering value-added strategy." Reflecting management confidence, on 26 July, 1pm announced a new dividend policy, with a 30% increase proposed for the year to May 2018 and the same for each year through to 2021. The four-year statement was a tangible sign of confidence, which led to the shares rising ca.10% on the day and more than 10% further since. Despite this rise, the 6.4x 2019E P/E and 0.8x P/B seem an anomaly for a profitable, growing company with significant committed long-term funding from a diversified range of sources.

- **1pm news:** 1pm reports FY to May results on 12 September. The trading update reported very strong growth (originations +70%, retained book +50%), improved margins and stable credit. These messages being reiterated and greater granularity on current trading may see further confidence in FY19 earnings.
- **Peer news:** Credit losses remain minimal. Secure Trust Bank's results on 8 August reported cost of risk as a percentage of loans of 0.1% in invoice discounting, 0.9% in asset finance, 0.1% in real estate and just 0.3% across the whole book. Metro Bank reported that its commercial loss rate was 0.13%.
- **Market news:** UK Finance reported net positive lending growth for the second sequential month, driven by increased manufacturer borrowing. There was still a 2.2% overall contraction YoY and the tone is cautionary. 1pm's tiny market share means it can deliver strong, profitable growth in challenging markets.
- **Valuation:** We detailed the assumptions in our valuation approaches in our initiation note, "Financing powerhouse: a lunchtime treat". The GGM indicates 103p and the DDM 73p (DDM normal payout 81p). The 2019E P/E of 6.4x and P/B of 0.8x appear 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-driven (payback for management actively engaging the investor community). Profitable, growing companies generally trade well above NAV.

Financial summary and valuation

Year-end May (£000)	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	-9,849	-10,820
Admin. expenses	-1,394	-4,290	-6,469	-10,834	-11,983
Operating profit	1,637	3,418	4,121	8,619	9,822
Pre-tax profit	1,620	3,346	4,080	7,946	9,048
Adj. EPS (p)	3.7	6.5	6.5	7.9	8.3
Total receivables	24,991	56,061	73,955	150,893	169,000
Eq. to receivables	49%	43%	39%	32%	33%
Shares in issue (m)	36.9	52.5	54.9	86.4	88.5
P/adj. earnings (x)	14.3	8.2	8.2	6.7	6.4
P/B (x)	1.6	1.2	1.0	0.9	0.8
Dividend yield	0.7%	0.9%	0.9%	1.2%	1.6%

Source: Hardman & Co Research

Healthcare Equipment & Services

Source: Eikon Thomson Reuters

Market data

EPIC/TKR	**AVO**
Price (p)	50.7
12m High (p)	64.8
12m Low (p)	9.5
Shares (m)	156.5
Mkt Cap (£m)	79.4
EV (£m)	72.4
Free Float*	47%
Market	AIM

**As defined by AIM Rule 26*

Description

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

Company information

Exec. Chairman	Michael Sinclair
CEO	Nicolas Serandour

+44 203 617 8728
www.advancedoncotherapy.com

Key shareholders

Board & Management	14.6%
Yantai CIPU	26.7%
AB Segulah	11.2%
Brahma AG	5.3%
Peter Gyllenhammar	3.0%
MK Trust	3.0%

Diary

Oct'18	Interims
Mar'19	Finals
1H'19	Harley Street ready

Analysts

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Advanced Oncotherapy

Top-up capital increase

AVO's goal is to deliver a more affordable, novel, proton-based radiotherapy system, based on state-of-the-art technology developed originally at the world-renowned CERN. Major technical milestones were achieved in 2017, and the company remains on track with its development plan. Confidence has been boosted greatly by the integration of the first three structures and overcoming the technical challenge of accelerating the proton beam. Having secured the treatment planning system with RaySearch for the LIGHT system in Harley Street, AVO undertook a capital increase to raise £6.4m to fund the STFC testing facility.

- **Strategy:** To develop a compact and modular proton therapy (PT) system at an affordable price for the payor, financially attractive to the operator, and generating superior patient outcomes. AVO benefits from the technology know-how developed by ADAM, Geneva, and relies on a base of world-class suppliers.
- **Placing:** New funds of £6.4m (gross) were raised on 2 August through a Placing of 13.1m shares @49p per share to new investors based in Switzerland, including a Swiss private bank, healthcare providers and certain directors, corresponding to a 6% premium compared with the previous day of trading.
- **Use of funds:** In addition to general working capital purposes, the proceeds will be used for software development, as well as for costs related to the preparation of the new testing and assembly site at the UK Government's Science and Technology Facilities Council (STFC) at Daresbury.
- **Board appointments:** AVO has confirmed the appointment of five new non-executive directors, including representatives from existing major shareholders. This follows on from the recent equity investment from a consortium led by Segulah and Yantai CIPU, owning 11.2% and 26.7%, respectively.
- **Investment summary:** Demand for PT is increasing worldwide, and the need for a small, flexible, affordable and close-to-patient machine is desirable. AVO has attracted strong partners, and discussions with potential customers have started already. Attention is focused on the construction timetable for the flagship Harley Street site and installation of the first LIGHT system. Resolution of AVO's financing requirements brings further assurance.

Financial summary and valuation

Year-end Dec (£m)	2015	2016	2017	2018E	2019E	2020E
Sales	0.0	0.0	0.0	0.0	0.0	4.6
Administration costs	-6.6	-11.2	-12.9	-12.4	-12.6	-12.8
Milestones/upfronts	0.0	0.0	0.0	16.5	0.0	0.0
EBITDA	-6.4	-10.8	-12.6	4.5	-12.1	-12.3
Underlying EBIT	-6.6	-11.2	-12.9	4.1	-12.6	-12.8
Reported EBIT	-8.5	-13.1	-14.5	2.2	-14.6	-15.4
Underlying PBT	-6.7	-11.3	-14.9	1.4	-15.6	-15.8
Statutory PBT	-8.6	-13.2	-16.5	-0.5	-17.7	-18.5
Underlying EPS (p)	-7.1	-13.9	-15.6	2.6	-6.3	-6.1
Statutory EPS (p)	-12.3	-14.4	-18.9	1.5	-7.4	-7.4
Net (debt)/cash	8.0	0.9	-9.2	12.0	-5.4	-25.1
Capital increase	21.1	13.5	0.3	32.4	8.0	8.0

Source: Hardman & Co Life Sciences Research

Pharmaceuticals & Biotechnology

Source: Eikon Thomson Reuters

Market data

EPIC/TKR	**AGY**
Price (p)	26.8
12m High (p)	39.5
12m Low (p)	23.0
Shares (m)	636.2
Mkt Cap (£m)	170.5
EV (£m)	147.9
Free Float*	39%
Market	AIM

**As defined by AIM Rule 26*

Description

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

Company information

CEO	Manuel Llobet
CFO	Nick Wykeman
Chairman	Peter Jensen
	+44 1903 845 820
	www.allergytherapeutics.com

Key shareholders

Directors	0.8%
Abbott Labs	37.8%
Southern Fox	22.7%
Odey	6.9%
River & Merc.	5.5%
Blackrock	4.8%

Diary (calendar year)

2H'18	Ph.III PQ Birch trial
26 Sep	Finals
Nov'18	AGM

Analysts

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Allergy Therapeutics

Full-year results – due 26 September

AGY is a long-established specialist in the prevention, diagnosis and treatment of allergies. Its subcutaneous allergy immunotherapies (SCITs), such as Pollinex Quattro (PQ) Grass, continue to gain market share despite being available in the EU only on a 'named-patient' basis. AGY is in the process of gaining full approval for its SCITs in Europe, with ongoing trials of multiple immunotherapies. The most advanced is the Phase III PQ Birch trial, which is expected to read out in the coming months, signifying a major value inflection point. Subsequent to the July trading statement, full 2018 financial results will be presented on 26 September 2018.

- **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.

- **Trading statement:** Underlying sales growth in the year to end-June 2018 was 3.5%, which increased to 6.6% on a reported basis, to £68.3m (£64.1m). The cash position was £15.5m, and net cash for FY'18 is estimated to be ca.£12m (£18.8m). This was boosted by a post-period-end rights issue of £10.6m in July.

- **PQ Birch:** The Phase III trial, designed to obtain approval for PQ Birch as a biological in Europe, is well advanced and will report data shortly. EU marketing authorisation via the TAV for PQ Birch would represent the first MPL-adjuvant vaccine to be formally licensed, strengthening the position of AGY significantly.

- **Risks:** AGY's primary risk lies in the timings of the regulatory approval process, mostly outside of its control, related to the PQ Birch immunotherapy and the European TAV process for full approval as a biological. Ongoing clinical trials do represent a risk, but this is limited by the products' use on a named-patient basis.

- **Investment summary:** AGY is in 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. Read-out from the EU Phase III birch and US and EU Phase II grass trials will provide the next major value inflection points.

Financial summary and valuation

Year-end June (£m)	2015	2016	2017	2018E	2019E	2020E
Sales	43.23	48.51	64.14	68.3	76.5	85.7
R&D investment	-3.12	-16.22	-9.30	-17.5	-18.0	-8.0
Underlying EBIT	2.91	-12.34	-2.89	-9.0	-8.8	5.7
Reported EBIT	1.41	-12.53	-2.60	-9.7	-9.5	5.0
Underlying PBT	2.84	-12.45	-2.97	-9.1	-8.9	5.6
Statutory PBT	0.65	-12.21	-2.67	-9.8	-9.6	4.9
Underlying EPS (p)	0.48	-2.36	-0.47	-1.5	-1.4	0.8
Statutory EPS (p)	0.02	-2.29	-0.42	-1.7	-1.5	0.7
Net (debt)/cash	20.14	20.04	18.80	12.2	12.9	16.1
Capital increase	20.08	10.97	0.03	0.3	10.4	0.3
P/E (x)	55.5	-11.4	-57.1	-17.3	-19.8	35.7
EV/sales (x)	3.4	3.0	2.3	2.2	1.9	1.7

Source: Hardman & Co Life Sciences Research

Pharmaceuticals & Biotechnology

Source: Eikon Thomson Reuters

Market data	
EPIC/TKR	**APH**
Price (p)	94.6
12m High (p)	102.5
12m Low (p)	50.3
Shares (m)	515.1
Mkt Cap (£m)	487.3
EV (£m)	575.6
Free Float*	89%
Market	AIM

**As defined by AIM Rule 26*

Description

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

Company information

CEO	Peter Butterfield
CFO	Andrew Franklin
Chairman	David Cook
	+44 1249 466 966
	www.alliancepharmaceuticals.com

Key shareholders

Directors	11.0%
Fidelity	8.9%
MVM Life Sciences	7.9%
Slater Invests.	6.6%
Blackrock	5.0%
GVQ IM	3.9%
Artemis	3.6%

Diary

19 Sep	Interims
Mar'19	Finals

Analysts

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Alliance Pharma

Interim results – due 19 September

APH is continuing with its buy-and-build strategy, having evolved through 35 acquisitions over a period of 20 years into a profitable, cash-generative, specialty pharma business. The company has a mix of international growth brands – Kelo-cote, MacuShield, Vamousse – and a bedrock of solid, local, low-growth products. A fourth international growth brand in the portfolio, Nizoral, was acquired from J&J on 21 June 2018 in the APAC region. The cash consideration of £60m was funded by a Placing and an increased debt facility. Adding to its growth prospects, Xonvea® (Diclectin) was approved in the UK in July. Interim results will be presented on 19 September.

- **Strategy**: Since inauguration, APH has adopted a buy-and-build model, with 35 deals over 20 years, assembling a portfolio of >90 products and establishing a strong track record. It is accelerating growth through investing in multi-market brands, with infrastructure supported by its bedrock products.

- **Trading update:** Underlying sales performance for 1H'18 was slightly better than forecast, up 4%, boosted by acquisitions (+8%). Kelo-Cote was exceptional, with CER growth of 88% (est.) to £10.9m (£6.2m) offsetting a softer performance from the bedrock portfolio. Net debt at 30 June was also better, at -£86.3m.

- **Nizoral:** APH acquired the Nizoral brand (medicated anti-dandruff shampoos) from J&J in the APAC region for a cash consideration of $81.2m/£60.0m, increasing sales in this important region 2.6x and adding well-established multi-national distribution partners and new territories (India and Japan).

- **Xonvea (Diclectin):** Adding to the positivity, APH and its partner, Duchesney Inc, received approval for Xonvea (nausea and vomiting of pregnancy) in the UK after a year of dialogue with the MHRA. Launch will take place in autumn 2018. Plans are underway to submit for EMA approval in APH's nine European territories.

- **Investment summary:** Recent acquisitions look set to boost APH into generating underlying CAGRs of 17% in sales and 10% in EPS over the next three years. On the back of this strong performance, the company is expected to continue with its progressive dividend policy. The shares are trading on a 2018E P/E of 20.4x, falling to 17.9x in 2019E, and carry a prospective dividend yield of 1.5%.

Financial summary and valuation

Year-end Dec (£m)	2015	2016	2017	2018E	2019E	2020E
Reported sales	48.3	97.5	101.3	119.7	134.0	144.0
EBITDA (underlying)	13.6	26.7	28.2	33.7	39.5	42.0
Reported pre-tax profit	15.2	22.2	*28.4	**28.9	32.7	35.9
Underlying EPS (p)	4.0	4.0	4.2	4.6	5.3	5.8
Reported EPS (p)	4.7	3.9	6.1	4.7	5.0	5.5
DPS (p)	1.1	1.2	1.3	1.5	1.6	1.8
Net (debt)/cash	-71.5	-76.1	-72.3	-87.7	-72.0	-54.8
Net debt/EBITDA (x)	5.3	2.8	2.6	2.6	1.8	1.3
P/E (x)	23.8	23.8	22.3	20.4	17.9	16.3
EV/sales (x)	11.9	5.9	5.7	4.8	4.3	4.0
EV/EBITDA (x)	42.3	21.5	20.4	17.1	14.6	13.7
Dividend yield	1.2%	1.3%	1.4%	1.5%	1.7%	1.9%

** Includes £5m Sinclair settlement less costs; **Includes £1.5m profit on disposal of Unigreg JV*
Underlying figures exclude exceptional items and share-based costs
Source: Hardman & Co Life Sciences Research

Financials

Source: Eikon Thomson Reuters

Market data

EPIC/TKR	**ARBB**
Price (p)	1,520
12m High (p)	1,640
12m Low (p)	1,285
Shares (m)	15.3
Mkt Cap (£m)	232
Loans to deposits (2018E)	80%
Free Float*	42%
Market	AIM

**As defined by AIM Rule 26*

Description

Arbuthnot Banking Group (ABG) has a well-funded and capitalised private bank, and has been growing commercial banking very strongly. It holds an 18.6% stake in Secure Trust Bank (STB) and has ca.£40m to invest in new organic or acquired businesses.

Company information

Chair/CEO	Sir Henry Angest
COO/CEO Arb. Latham	Andrew Salmon
Group FD, Deputy CEO AL	James Cobb
	+44 20 7012 2400
	www.arbuthnotgroup.com

Key shareholders (co website)

Sir Henry Angest	56.1%
Liontrust	7.5%
Prudential plc	4.0%
R Paston	3.5%

Diary

October	3Q trading statement

Analyst

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Arbuthnot Banking Group

Change in treatment of Secure Trust Bank holding

On 8 August, ABG and STB announced that the mutual presence of managements on each other's boards was to end. The STB stake will be treated as a financial asset and not an associate, with changes in the market value taken through reserves and dividends in income. As ABG will not accrue associate income, and although there is no change in the real economic or cash outturns, the net effect is likely to be lower underlying accounting profits. The STB stake will be written down to its market value as of 8 August, with a ca.£20m loss in discontinued businesses. There is a minimal impact on regulatory capital, as STB was a supervisory deduction.

- **No change in core business, strong growth dynamics:** ABG is delivering strong profit and franchise growth, with underlying 1H'18 profits rising to £4.2m, from £3.2m in 1H'17. Loans and deposits were both up 25% on 1H'17, driving a 25% increase in income. Costs rose 24%, with heavy investment.

- **Core strengths remain:** The group is well funded (loans £1.1bn vs. deposits £1.5bn) and has attracted new teams bringing incremental skills. It is also strongly capitalised (Tier 1 ratio over 15% and all equity). Any further sale of STB shares is likely to see capital increasing, as it will reduce regulatory deductions.

- **Peer news (August results):** St James Place saw strong growth in a good market. Credit losses remain minimal, e.g. STB showed cost of risk as a % of loans of 0.1% in invoice discounting (0.3% across whole book), Metro Bank showed commercial loss rates of 0.13%, and specialist mortgage lender CCFS's losses were 0.025%.

- **Valuation:** The range of our capital deployed valuation methodologies is now £13.01 (DDM), £23.13 (SoTP) and £26.78 (GGM). We believe the GGM best captures the profitability and growth of the business. The current share price is below 1H'18 NAV (1,540p).

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

Financial summary and valuation (before change in treatment of STB)

Year-end Dec (£000)	2015	2016	2017	2018E	2019E
Operating income	34,604	41,450	54,616	66,431	80,300
Total costs	-35,926	-46,111	-54,721	-64,886	-75,429
Cost:income ratio	104%	111%	100%	98%	94%
Total impairments	-1,284	-474	-394	-562	-675
Reported PBT	-2,606	179	6,971	8,926	12,935
Adj. PBT	2,982	4,009	7,623	10,926	14,935
Statutory EPS (p)	86.3	1,127.2	43.9	56.6	79.4
Adj. EPS (p)	13.5	17.1	47.5	67.3	90.1
Loans/deposits	82%	76%	75%	74%	80%
Equity/assets	5.5%	18.5%	12.8%	11.4%	10.4%
P/adj. earnings (x)	112.6	88.9	32.0	22.6	16.9
P/BV (x)	1.88	0.99	0.98	0.98	0.95

Source: Hardman & Co Research

Pharmaceuticals & Biotechnology

Source: Eikon Thomson Reuters

Market data	
EPIC/TKR	**AVCT**
Price (p)	23.5
12m High (p)	72.0
12m Low (p)	21.0
Shares (m)	115.5
Mkt Cap (£m)	27.1
EV (£m)	12.0
Free Float*	78%
Market	AIM

**As defined by AIM Rule 26*

Description

Avacta (AVCT) is a pre-clinical-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	Eliot Forster
	+44 1904 217 046
	www.avacta.com

Key shareholders	
Directors	3.9%
IP Group	18.2%
Baillie Gifford	8.5%
JO Hambro	7.5%
Carlton Intl.	7.3%
Fidelity	5.9%

Diary	
Oct'18	Finals
Jan'19	AGM
1H'19	PD-L1/LAG-3 drug candidate selection

Analysts

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Avacta

Capital increase to support next steps

AVCT is a pre-clinical biotechnology company and the proprietary owner of Affimer technology. Affimers represent a radical alternative to the established antibody technology, which continues to dominate the drug industry, despite its limitations. The significant technical and commercial benefits of Affimers are being recognised increasingly through corporate and academic interest, ongoing evaluations and deal flow. A co-development partnership has been signed with Bach Biosciences (Tufts) for development of a new type of Affimer drug conjugate (AfDC) that combines Affimer technology with drugs developed at Tufts.

- **Strategy:** AVCT is aiming to commercialise its Affimer technology through licensing for research and diagnostics, and by identifying and developing its own proprietary therapeutic pipeline for partnering. AVCT has sufficient cash resources to identify an Affimer lead to be ready for first-in-man trials in 2020.

- **Major co-development partnership:** AVCT and Bach Biosciences (Boston, PA) have agreed a co-development partnership to advance a new class of Affimer drug conjugate that combines technologies from both parties. The first example to come out of the collaboration will combine PD-L1 and I-DASH inhibitors.

- **Capital increase:** AVCT has raised gross new capital of £11.6m via a Placing of 46.5m Ordinary shares @ 25p per share with existing and new shareholders. The price represented a discount of 19% to the average 30-day closing price of 30p. 48% of the cash will be used to prepare a therapeutic Affimer for the clinic.

- **Risks:** Affimers represent a new disruptive technology, and the potential customer base might take time to recognise their advantages. While all new drug development carries a high risk, AVCT has hit a number of important milestones over the last two years, which have reduced the risk profile greatly.

- **Investment summary:** AVCT has made considerable progress towards its goal of having its own proprietary Affimer-based drugs and growing a profitable reagents business. By itself, the company has identified potential leads and completed both *in vitro* and *in vivo* pharmacokinetic pre-clinical, efficacy and immunogenicity tests. Awareness of the potential of Affimers is also being enhanced through the rising number of collaborative deals being signed.

Financial summary and valuation

Year-end July (£m)	2015	2016	2017	2018E	2019E	2020E
Sales	1.81	2.17	2.74	3.00	3.50	5.40
R&D spend	-0.03	-1.50	-2.60	-3.25	-4.50	-5.50
EBITDA	-2.28	-4.79	-6.66	-7.95	-9.30	-9.20
Underlying EBIT	-2.85	-5.39	-7.60	-9.02	-10.37	-10.27
Reported EBIT	-5.51	-5.66	-7.98	-9.44	-10.84	-10.78
Underlying PBT	-2.83	-5.29	-7.51	-8.98	-10.35	-10.27
Statutory PBT	-5.48	-5.57	-7.89	-9.40	-10.81	-10.78
Underlying EPS (p)	-4.38	-6.46	-8.75	-11.55	-7.88	-7.42
Statutory EPS (p)	-9.72	-6.86	-9.31	-12.17	-8.30	-7.87
Net (debt)/cash	7.33	19.52	13.17	4.50	4.94	-5.09
Capital increase	0.02	21.05	0.01	0.06	10.92	0.00
EV/sales (x)	13.0	10.9	8.6	7.8	6.7	4.4

Source: Hardman & Co Life Sciences Research

Pharmaceuticals & Biotechnology

Source: Eikon Thomson Reuters

Market data	
Ticker	**BNO**
Price (A$)	0.48
12m High (A$)	0.64
12m Low (A$)	0.34
Shares (m)	482.9
Mkt Cap (A$m)	231.8
EV (A$m)	228.3
Free Float*	89%
Market	ASX

**As defined by ASX Rule 1.1 Condition 7*

Description

Bionomics (BNO) is an Australian biopharmaceutical company specialising in development of ion channel drugs for disorders of the central nervous system and for cancers. In addition to a strong proprietary pipeline that includes ion channel allosteric modulators for anxiety, the company offers contract drug development services.

Company information

CEO	Deborah Rathjen
CFO	Steven Lydeamore
Chairman	Errol De Souza
	+618 8354 6100
	www.bionomics.com.au

Key shareholders

Directors	0.7%
BVF Partners	10.2%
Ausbil Investment	8.1%
PPM	5.0%

Diary (calendar year)

2H'18	PTSD trial data
1Q'19	Agitation trial data
1Q'19	Merck trial

Analysts

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Bionomics

FY'18 – focus on PTSD drug development

BNO is an Australian biopharmaceutical company specialising in ion channel drug discovery for central nervous system (CNS) disorders such as anxiety and post-traumatic stress disorder (PTSD). BNO also offers contract and partnered discovery based on its proprietary technology platforms: MultiCore and ionX. The group sales model includes fees-for-service, licensing income and royalties from successful partnered products. In the 2018 fiscal year, its strategy has been to focus on development of its lead candidate, BNC210, to completion of Phase II in PTSD. The RESTORE trial is due to read out next month – a potential value inflection point.

- **Strategy:** BNO's recently refined strategy is to focus on development of its ion channel drug candidates, particularly allosteric modulators. It intends to partner its priority CNS candidate for late-stage development and commercialisation, and to monetise its clinical-stage, non-ion channel oncology programmes.

- **Full-year results:** Sales (R&D payments and service fees) declined 28% to A$4.0m in FY'18, as payments from the MSD research collaboration ceased on successful completion of research activities. Other income totalled A$1.4m, returning to underlying levels following the US$10m/A$13m milestone in FY'17.

- **R&D investment:** Operational focus in the period was on clinical trials, with the lead candidate, BNC210, progressing in the Phase II PTSD RESTORE trial to full recruitment and to completion of treatment. Data are due to be read out next month. The trial of oncology candidate BNC101 ceased, pending a deal.

- **Risks:** BNC210 has therapeutic potential in large patient populations with unmet need. However, there are significant risks in development of any drug, and late-stage clinical trials are expensive. In addition, there are no approved specific cancer stem cell-targeting drugs, and BNC101 is yet to be out-licensed.

- **Investment summary:** BNO has a clear strategy to invest in developing its CNS drug candidates to a stage that both interests big pharma and generates good potential returns for shareholders. Hardman & Co estimates the post-tax NPV of the whole drug pipeline to be ca.A$650m. The next inflection point is likely to be the BNC210 data in CY 2H'18, or potentially news about the oncology assets.

Financial summary and valuation

Year-end June (A$m)	2015	2016	2017	2018	2019E	2020E
Sales	6.79	7.14	5.53	3.95	3.60	3.30
R&D investment	-23.18	-24.77	-24.22	-25.25	-20.20	-12.12
Other income	1.35	2.59	14.62	1.36	47.56	34.46
EBITDA	-22.65	-24.95	-10.99	-25.20	25.45	19.91
Underlying EBIT	-24.37	-26.88	-12.73	-26.87	23.79	18.24
Reported EBIT	-24.35	-27.42	-13.23	-27.43	23.25	17.70
Underlying PBT	-24.28	-26.28	-13.50	-28.35	22.42	17.36
Statutory PBT	-24.27	-26.82	-13.13	-32.82	21.89	16.83
Underlying EPS (¢)	-4.06	-3.51	-1.48	-4.28	5.57	4.12
Statutory EPS (¢)	-3.27	-3.42	-1.43	-5.10	5.56	4.12
Net (debt)/cash	11.78	23.14	24.26	3.50	31.81	52.08
Capital increase	0.27	28.22	0.14	0.41	0.00	0.00

Source: Hardman & Co Life Sciences Research

Industrial Engineering

Source: Eikon Thomson Reuters

Market data	
EPIC/TKR	**CMH**
Price (p)	80
12m High (p)	176
12m Low (p)	55
Shares (m)	8.3
Mkt Cap (£m)	6.6
EV (£m)	15.5
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 1922 707110
www. chamberlin.co.uk

Key shareholders

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

Diary

Nov'18	Interims

Analyst

Paul Singer 020 7194 7622
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Chamberlin

Trading strong, technical issues largely resolved

Chamberlin remains on track strategically, and the technical problems at the new machine shop are now largely resolved. Prospects are most encouraging, and the group continues to develop its product offering to the automobile turbocharger industry through expansion of its main operational facilities. The shares remain attractively valued against the peer group on most methodologies.

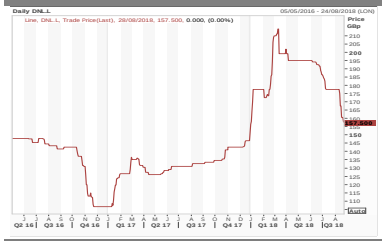
- **AGM statement:** 'Revenues for the first three months of the current financial year are in line with management expectations. Demand at the Walsall foundry continues to be strong, driving increased production volumes.' The company has reaffirmed market estimates, but profitability will be weighted towards 2H.
- **Outlook:** We are maintaining our 2018/19 forecasts. Demand for petrol engine turbocharger components is strong, and new products for machining are also being introduced into the market. The group is well positioned to deliver a further improvement in performance during the year, as margins recover.
- **Risks:** Potential risks include developments with the automotive industry, foreign currency and raw material price fluctuations. From a financial standpoint, we note that the group has a significant pension scheme deficit and, with limited free cashflow, the deficit is likely to remain at a relatively high level.
- **Valuation:** The shares remain lowly valued, trading on 2019E EV/sales and EV/EBITDA of around 0.4x and 4.4x, respectively, compared with sector averages of 1.0x and 7.0x. Our DCF valuation also suggests that the shares are significantly undervalued.
- **Investment summary:** The company has repositioned itself from a traditional engineering company to become a key supplier to the automotive turbocharger sector. The shares offer the opportunity to invest in a cyclical stock with high operational leverage.

Financial summary and valuation

Year-end March (£m)	2017	2018	2019E	2020E
Sales	32.1	37.7	40.8	41.9
Gross profit	6.9	6.9	8.5	8.9
EBITDA	2.0	1.9	3.5	3.9
Underlying EBIT	0.7	0.4	1.6	2.0
Reported EBIT	0.4	0.1	1.6	2.0
Underlying PBT	0.57	0.0	1.3	1.7
Underlying EPS (p)	4.5	-5.5	13.0	16.5
GAAP EPS (p)	-11.7	-10.2	13.0	16.5
Net (debt)/cash	-6.8	-8.9	-8.3	-7.2
P/E (x)	-	-	6.2	4.8
EV/sales (x)	0.47	0.40	0.4	0.4
EV/EBITDA (x)	-	8.2	4.4	4.0

Source: Hardman & Co Research

Pharmaceuticals & Biotechnology



Source: Eikon Thomson Reuters

Market data

EPIC/TKR	**DNL**
Price (p)	150.0
12m High (p)	215.8
12m Low (p)	132.5
Shares (m)	61.3
Mkt Cap (£m)	92.0
EV (£m)	75.3
Free Float*	19%
Market	AIM

**As defined by AIM Rule 26*

Description

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

Company information

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

Key shareholders

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

Diary

20 Sep	Full-year results
3Q'18	US Phase III Chronocort
4Q'18	Alkindi US reg. submission

Analysts

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Diurnal Group

Full-year results – due 20 September

DNL is a commercial-stage specialty pharmaceutical company focused on diseases of the endocrine system. Its two lead products target rare conditions where medical needs are currently unmet, with the aim of building a long-term 'Adrenal Franchise'. Following approval from the European Commission, the launch of Alkindi in key European markets through DNL's own commercial infrastructure has started, with Germany the first country of launch. An independent publication has been released in Germany's main decision-making body website indicating that the benefit of Alkindi over hydrocortisone has not been proven (which was expected).

- **Strategy**: DNL'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 Alkindi and Chronocort are established in the EU and US, the long-term vision is to expand DNL's product offering to other related conditions.

- **Chronocort US Phase III:** An independent publication released on the Gemeinsame Bundesausschuss (G-BA) website, Germany's main healthcare decision-making body, states that Alkindi's benefit over generic hydrocortisone has not been proven, due to the absence of an appropriate comparator.

- **Significance:** The finding is not surprising and does not affect the clinical benefit of Alkindi in the paediatric population suffering adrenal insufficiency. Following an EMA recommendation, a clinical comparator was not included in the Phase III study due to the lack of a licensed product for paediatric patients.

- **Alkindi marketing update:** DNL has indicated that Alkindi is now stocked at more than 40 wholesaler depots and is available to pharmacies across Germany, through the use of two major wholesalers. Pricing is in line with expectations, and DNL has revealed that sales to date are in line with its internal projections.

- **Investment summary:** Alkindi, a cortisol replacement therapy designed for babies and children, will be DNL's first product on the market. It will be followed soon by Chronocort for adults. The cortisol replacement market is for conditions that need life-long treatments, and has a potential value of $3.5bn. DNL will hit a number of valuation inflection points during 2018 with its upcoming news flow.

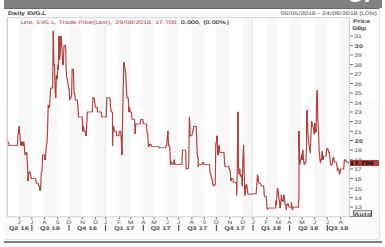
Financial summary and valuation

Year-end June (£m)	*2015	2016	2017	2018E	2019E	2020E
Sales	0.00	0.00	0.00	0.13	3.25	15.60
SG&A	-1.00	-1.99	-3.22	-6.03	-7.59	-9.21
R&D	-2.23	-3.89	-8.34	-10.50	-10.00	-7.00
EBITDA	-2.98	-5.87	-11.54	-16.41	-14.66	-2.18
Underlying EBIT	-2.99	-5.88	-11.55	-16.41	-14.66	-2.18
Reported EBIT	-2.99	-6.99	-12.07	-16.96	-15.23	-2.78
Underlying PBT	-3.02	-5.95	-11.64	-16.45	-14.58	-2.16
Statutory PBT	-3.02	-7.06	-12.16	-17.00	-15.15	-2.76
Underlying EPS (p)	-8.49	-12.48	-17.05	-23.89	-18.43	0.22
Statutory EPS (p)	-8.72	-15.02	-18.04	-24.89	-19.37	-0.76
Net (debt)/cash	6.05	26.88	16.37	16.74	3.79	-0.52
Capital increase	9.25	24.52	0.05	13.74	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)	17.5
12m High (p)	29.3
12m Low (p)	12.2
Shares (m)	93.3
Mkt Cap (£m)	16.3
EV (£m)	12.7
Free Float*	64%
Market	AIM

**As defined by AIM Rule 26*

Description

Evgen (EVG) is a virtual pharmaceutical company using its proprietary technology, Sulforadex, to create new synthetic and stable variants of the natural product, sulforaphane. The 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	2.7%
North West Fund	17.4%
Rising Stars	12.8%
AXA	7.1%
South Yorkshire	4.0%
Seneca	3.8%

Diary

2H'18	Full data STEM read-out
2H'18	Full data SAS read-out
Dec'18	Interims

Analysts

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Evgen Pharma

Recruitment completed in the STEM Phase IIa trial

EVG is a virtual pharmaceutical company focused on the development of a synthetic version of a natural product, sulforaphane, which is known to modulate key signalling pathways involved in cellular protection and inflammation. EVG has created new and stable variants of sulforaphane using its proprietary technology, Sulforadex, enabling it to be used as a therapeutic for the first time. SFX-01 is in Phase II trials for both subarachnoid haemorrhage (SAH) and ER+ breast cancer, with read-outs due near the end of 2018. The company has announced that patient recruitment has been completed, with 50 patients being enrolled.

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

- **Recruitment completed:** EVG, together with medical advisors, has decided that there is already sufficient evidence of safety, tolerability and clinical benefit with SFX-01. The next step will be a placebo-controlled trial using SFX-01 with second-line hormone therapy in patients that have failed on CDK4/6 inhibitors.

- **The STEM trial:** The Phase II trial recruits breast cancer patients who originally responded to hormone treatment but then started to show resistance and disease progression. After one year of dosing, interim data bring confidence in EVG's primary end-point of safety and tolerability. Full data are due at end-2018.

- **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, EVG's risk profile is arguably reduced.

- **Investment summary:** SFX-01 will be entering multi-billion-dollar global markets that are currently unsatisfied. EVG intends to out-license its drugs to the pharma majors for global commercialisation. A recent capital increase has ensured that EVG has sufficient cash to get beyond results from the ongoing trials. The EV of EVG afforded by the market does not reflect adequately the development stage of SFX-01 and the lower-than-usual risk profile.

Financial summary and valuation

Year-end March (£000)	2016	2017	2018	2019E	2020E	2021E
Sales	0	0	0	0	0	0
SG&A	-620	-949	-1,015	-1,056	-1,108	-1,175
R&D	-612	-2,500	-1,900	-2,660	-3,059	-3,212
EBITDA	-1,224	-3,432	-2,894	-3,695	-4,146	-4,366
Underlying EBIT	-1,232	-3,449	-2,915	-3,716	-4,167	-4,387
Reported EBIT	-2,434	-3,658	-3,026	-3,832	-4,290	-4,515
Underlying PBT	-2,015	-3,435	-2,915	-3,712	-4,167	-4,387
Statutory PBT	-3,217	-3,644	-3,026	-3,828	-4,290	-4,515
Underlying EPS (p)	-3.9	-3.9	-3.1	-3.3	-3.7	-3.9
Statutory EPS (p)	-6.3	-4.2	-3.3	-3.4	-3.8	-4.0
Net (debt)/cash	7,126	3,859	3,626	290	-3,298	-7,006
Capital increases	8,565	0	2,115	0	0	0

Source: Hardman & Co Life Sciences Research

Pharmaceuticals & Biotechnology

Source: Eikon Thomson Reuters

Market data

EPIC/TKR	**GDR**
Price (p)	28.5
12m High (p)	42.0
12m Low (p)	25.0
Shares (m)	18.8
Mkt Cap (£m)	5.4
EV (£m)	7.7
Free Float*	48%
Market	AIM

**As defined by AIM Rule 26*

Description

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

Company information

CEO	David Budd
CFO	Matthew Fowler
Chairman	Ian Gilham
	+44 161 989 0245
	www.genedriveplc.com

Key shareholders

Directors	8.2%
Calculus	16.1%
M&G	13.0%
Odey	12.8%
Hargreave Hale	6.9%
River & Merc.	5.6%

Diary

13 Sep	GM
Nov'18	Finals

Analysts

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Grégoire Pavé	020 7194 7628
	gp@hardmanandco.com

genedrive plc

FIND to evaluate performance

genedrive plc (GDR) is a commercial-stage company focused on point-of-care molecular diagnostics. Its Genedrive® molecular diagnostic testing platform is at the forefront of this technology, offering a rapid, low-cost, simple-to-use device, with high sensitivity and specificity in infectious disease diagnosis. Rapid analysis of patient samples greatly aids clinical and public health decision-making, with field testing particularly important in emerging markets. GDR has been awarded a £550k grant from the UK's National Institute for Health Research (NIHR) to develop a diagnostic to prevent hearing loss resulting from adverse reactions to gentamicin.

- **Strategy**: Now that the Genedrive technology platform has received CE Marking, the new management team has completely re-focused the company onto the commercialisation pathway for diagnosis of infectious diseases, signing two important commercial agreements with Sysmex, a major global player.

- **Trading update:** GDR reported diagnostic sales of £1.9m in fiscal 2018 (£2.6m fiscal 2017), marginally below our £2.0m forecast. The expected decline was due to the successful completion of its US Department of Defense contract, which will be lower again in 2019. Cash at 30 June was £3.5m, vs. our forecast of £3.3m.

- **FIND study:** GDR has entered into a study agreement with the Foundation for Innovation of New Diagnostics (FIND) to evaluate the diagnostic accuracy of its HCV test kit across diverse genotypes in Cameroon and Georgia. FIND will lead the studies, with GDR supplying product in-kind to support the study.

- **Risks:** The platform technology has been de-risked through the receipt of CE Marking for its first two assays (hepatitis C and tuberculosis). The main risk is commercial, given that it often takes time for new technologies to be adopted. However, partnering with major global and local players reduces this risk.

- **Investment summary:** Genedrive technology ticks all the boxes described for an 'ideal' *in vitro* diagnostic that satisfies the need for powerful molecular diagnostics outside the hospital setting. The hepatitis C market is a global opportunity, which is very large, even in developing countries. With strong partners being signed for different countries, such as the NHS in the UK, and evidence of early sales traction, there is, in our opinion, a valuation anomaly.

Financial summary and valuation

Year-end June (£000)	2015	2016	2017	2018E	2019E	2020E
Sales	4,517	5,063	5,785	4,869	3,447	4,826
Underlying EBIT	-3,858	-5,259	-4,812	-4,664	-3,681	-2,709
Reported EBIT	-4,040	-5,426	-7,292	-4,784	-3,837	-2,927
Underlying PBT	-3,242	-6,330	-5,007	-4,994	-4,146	-3,180
Statutory PBT	-3,424	-6,497	-7,487	-5,114	-4,302	-3,399
Underlying EPS (p)	-28.3	-54.6	-21.4	-21.5	-16.4	-10.1
Statutory EPS (p)	-30.1	-56.2	-34.9	-22.2	-17.1	-11.0
DPS (p)	0.0	0.0	0.0	0.0	0.0	0.0
Net (debt)/cash	903	-3,877	-70	-2,362	-5,175	-6,947
Capital increases	80	0	6,023	0	1,250	0
P/E (x)	-1.3	-0.7	-1.7	-1.7	-2.2	-3.6
EV/sales (x)	2.0	1.8	1.6	1.9	2.7	1.9

Source: Hardman & Co Life Sciences Research

Construction & Materials

Source: Eikon Thomson Reuters

Market data

EPIC/TKR	**INL**
Price (p)	64.5
12m High (p)	73.60
12m Low (p)	50.75
Shares (m)	204.9
Mkt Cap (£m)	132.8
EV (£m)	200.8
Free Float*	99.0%
Market	AIM

**As defined by AIM Rule 26*

Description

Inland Homes is a brownfield regeneration specialist, housebuilder and mixed-use developer. Its core skills are acquiring largely unconsented sites, principally in southern England, taking them through planning to breaking ground, development and sale.

Company information

Chairman	Terry Roydon
CEO	Stephen Wicks
CFO	Nishith Malde

+44 1494 762 450
www.inlandhomesplc.com

Key shareholders

M H Dixon	7.80%
Janus Henderson	4.95%
P&KS	3.03%
Management	13.96%

Diary

20 Sep	Final results

Analyst

Tony Williams 020 7194 7622
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Inland Homes plc

"Always a better way"

Toyota is World leader in hybrid electric vehicles and, of the three types, the Parallel Hybrid is most popular – and the Toyota Prius most widely known. This car can be powered in three ways: directly by the engine; by the electric motor alone; or by both sources working together. Inland is a rare hybrid in the UK residential sector with similarly multiple sources of energy and profit.

- **One**: Inland is best known for its core skill of identifying land, assembling it, steering through planning – and arriving it to market. UK housebuilders love this too. It makes life easy and means they can be 'capital light' (which is a popular industry model right now). By its nature, though, this core activity is time-consuming in travel and lumpy in terms of income. It is also a single market.

- **Two:** So good are many of the Group's created opportunities that it chooses to forward a number of them on their own wheels. And the real profit propulsion here comes from master planning, i.e. transporting new communities on the roads of green and brownfield land (regeneration by another name).

- **Three** sits in-between, i.e. Inland builds and sells houses in the private sector to owners and renters. This is an important source of profit in its own right – and it is motoring fast. It is also a reality check, i.e. the Group undertakes the self-same task as its prime land customers. No opaque windscreens here.

- **An extra one:** The environs of the public sector are often asset rich in terms of land (and vehicles) but can be capital poor. On this circuit, Inland operates in partnership to utilise the client's land and provide houses; the Group also brings land to a local authority or housing association and then builds units – i.e. the best of both worlds. Note, too, affordable residential is a burgeoning sector at this time, with a wide range of ownership models.

- **Seal of approval:** On 22 August, Inland was registered as a for-profit-provider of social housing by the Regulator of Social Housing. This bestows rare authorisation to build new homes within the broader public sector; and a spectacularly smoother ride. To enjoy this and other vehicular benefits, the Inland dealership is offering its shares at a 37% discount in 2018 (see below).

Financial summary and valuation

Year-end June (£m)	2015	2016	2017	2018E	2019E	2020E
Total revenue	114	102	91	131	159	180
Underlying PBT	19.5	15.7	19.6	18.8	22.1	25.5
Underlying EPS (p)	8.56	5.09	7.09	7.60	8.90	10.30
Statutory EPS (p)	14.67	14.01	7.82	7.60	8.90	10.30
Net (debt)/cash	-34.9	-54.6	-68.0	-66.4	-62.4	-55.4
Shares in issue (m)	202.2	201.8	202.0	202.1	204.9	204.9
P/E (x)	7.6	12.7	9.1	8.5	7.4	6.4
DPS (p)	1.00	1.30	1.70	2.20	2.60	3.00
Dividend yield	1.5%	2.0%	2.6%	3.4%	4.0%	4.6%
NAV (p)	44.44	57.66	64.62	69.69	72.73	78.10
EPRA NAV adjust. (p)	43.92	92.34	96.22	103.39	109.64	117.89
EPRA discount	na	30%	33%	37%	41%	45%

Source: Hardman & Co Research

General Retailers

Source: Eikon Thomson Reuters

Market data

EPIC/TKR	**KOOV**
Price (p)	12
12m High (p)	57
12m Low (p)	6
Shares (m)	355
Mkt Cap (£m)	43
EV (£m)	23
Free Float*	40%
Market	AIM

**As defined by AIM Rule 26*

Description

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

Company information

CEO	Mary Turner
CFO	Rob Pursell
Chairman	Waheed Alli

+44 20 7151 0170
www.koovs.com

Key shareholders

Waheed Alli (Dir.)	12%
Anant Nahata (Dir.)	11%
Michinoko	5%
Ruffer	5%
Hindustan Times Media	14%
Future Group	16%

Diary

Before end-Sep	Prelims

Analyst

Jason Streets 020 7194 7622
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Koovs plc

Koovs refinanced for the future

Following on from the investment by the Future Group (FLFL), the subscription for £12m of new shares and the deal with HT Media for £17m-worth of advertising in exchange for shares, Koovs is now well placed to build on the success it has had to date in creating India's leading fashion e-tailer. The cash injection and the support of FLFL should enable it to resume its growth path and surf the growth of Indian e-commerce.

- **The deal**: Koovs issued 57.9m shares to FLFL at 10p per share and a further 80m to selected investors at 15p per share. The capital raised fulfils the conditions of the HT Media deal, and it will be issued with 42m new shares. FLFL will subscribe within six months for a further 63.5m shares, bringing its stake up to 29%.
- **The benefits:** FLFL is a huge, nationwide bricks-and-mortar fashion retailer. It is also a vertically integrated business manufacturing its own brands, as well as selling well-known international labels. With Koovs leveraging FLFL's scale and distribution, its revenue and margins should improve much faster.
- **Valuation:** Conventional valuation metrics are unhelpful. We take our forecast EBITDA for Dec-22, apply a Boohoo /ASOS multiple and discount the value back to today. Even at a 25% discount, the EV comes out at £357m including the funds to be raised. The current price is a poor indicator of the inherent value.
- **Risks:** Now it is refinanced, we see the two key risks being slower uptake of e-commerce in India than we forecast, and damaging discounting by Koovs' direct and indirect competitors. Koovs also needs to manage the relationship with FLFL successfully to optimise its benefits.
- **Investment summary:** With the money raised and the new partners on board, Koovs becomes an exciting way to play the last big world retail market to move online. The prize, if it gets it right, is a billion-pound company and more. It is likely to be a bumpy, exciting ride, but investors have the reassurance of a highly experienced management team in charge, and the backing of two major Indian corporations straddling both retail and media.

Financial summary and valuation

Year-end Mar (£m)	2017	2018E	2019E	2020E	2021E	2022E
Visits (m)	79	65	116	166	246	312
Conversion	1.6%	1.4%	1.4%	2.3%	2.8%	3.5%
No. of orders (m)	1.25	0.89	1.62	3.74	6.75	10.93
AOV (£)	14.75	16.37	16.74	19.00	20.58	23.29
GOV	18.5	14.5	27.2	71.1	139.0	254.6
Net sales	12.5	9.6	16.9	44.3	86.6	158.6
Weighted margin	43%	46%	49%	53%	57%	61%
Trading profit	0.3	1.2	3.6	12.1	25.8	70.4
Trading margin	2%	11%	21%	27%	30%	44%
EBITDA	-20.0	-14.4	-19.4	-18.9	-7.8	17.2
No. of shares (m)	175	175	355	419	419	419
EV/sales (x)	1.1	1.5	2.6	1.0	0.5	0.3

Source: Hardman & Co Research

Financials

Source: Eikon Thomson Reuters

Market data

EPIC/TKR	MCL
Price (p)	153.8
12m High (p)	174.0
12m Low (p)	123.0
Shares (m)	129.5
Mkt Cap (£m)	199.1
EV (£m)	178.7
Free Float*	46%
Market	AIM

**As defined by AIM Rule 26*

Description

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

Company information

Non Ex. Chr.	Stephen Karle
CEO	Paul Smith
CFO	Andy Thomson

Tel: +44 330 045 0719

www. morsesclubplc.com

Key shareholders (25/05/18)

Hay Wain	36.82%
Woodford Inv. Mgt.	9.33%
Miton Asset Mgt.	9.03%
Artemis Inv. Mgt.	6.95%
JO Hambro	6.74%
Majedie Asset Mgt.	5.34%
Blackrock	4.15%
Legal and General	3.22%

Diary

Oct'18	Interim results

Analyst

Mark Thomas 020 7194 7622

mt@hardmanandco.com

Morses Club PLC

Trading statement confirms focus on quality

We reviewed MCL's strategic focus on quality in our note, Quality Street, published on 19 July, in which we detailed MCL's focus on quality, giving practical examples of how the group aims to generate sustainable profit growth. Conservatism runs throughout MCL's lending, accounting, agents, customer selection and new product development. The trading statement on 30 August confirmed these trends, with steady growth, controlled risk and delivery in line with expectations. We note that, over recent months, there has been steady buying by a number of MCL's major holders. Our valuation range remains 171p to 197p.

- **MCL news:** MCL published its trading statement on Thursday 30 August. The key message is a continuation of the delivery of steady growth through the focus on quality we identified in our note, "Quality Street". Credit remains tightly controlled, growth is being delivered and new initiatives carefully rolled out.

- **Other MCL news:** We note that, over the past few months, five of the eight largest holders have increased their holdings, including Woodford IM, Miton AM, JO Hambro, Blackrock and Legal and General. The broad range of major shareholders increasing their stakes suggests strong confidence in the company.

- **Peer news:** We reviewed NSF's 2 August results in our note, Jam today, more tomorrow. The shares rose nearly 10%. We also note that there has been broad director buying at NSF, which, again, can be considered as a sign of confidence in MCL's market.

- **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", and updated these in our results note. The range is now 171p (DDM) to 197p (GGM).

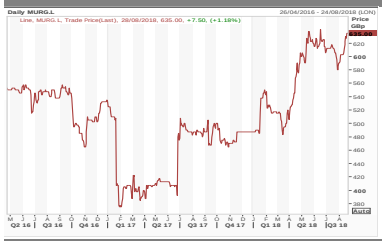
- **Investment summary:** MCL is operating in an attractive market. It has a dual-fold strategy that should deliver an improved performance from existing businesses and new growth options. It conservatively manages risk and compliance, especially in new areas. The agent network is the competitive advantage over remote lenders. The valuation has material upside, and we forecast a 5.0% February 2019 dividend yield, with 1.7x cover (adj. earnings).

Financial summary and valuation

Year-end Feb (£000)	2015	2016	2017	2018	2019E*	2020E*
Reported revenue	89.9	90.6	99.6	116.6	119.0	127.2
Total impairments	-22.9	-18.8	-24.3	-30.4	-26.6	-27.6
Total costs	-51.4	-53.4	-56.7	-65.6	-69.2	-74.3
EBITDA	16.5	19.3	19.9	22.1	24.9	27.3
Adjusted PBT	13.0	16.8	17.7	19.2	21.4	23.6
Statutory PBT	58.5	10.4	11.2	16.1	18.2	20.7
Statutory EPS (p)	46.5	6.1	6.6	10.1	11.4	13.0
Adj. EPS (p)	8.1	10.2	10.8	11.7	13.2	14.6
P/adj. earnings (x)	18.9	15.0	14.2	13.1	11.6	9.4
P/BV (x)	2.1	3.6	3.2	3.0	2.9	2.6
P/tangible book	2.3	4.4	3.9	3.4	3.3	2.9
Dividend yield	n/m	n/m	4.2%	4.6%	5.0%	5.5%

*Source: Hardman & Co Research * IFRS 9 basis*

Support Services



Source: Eikon Thompson Reuters

Market data	
EPIC/TKR	**MUR**
Price (p)	630
12m High (p)	630
12m Low (p)	380
Shares (m)	9.0
Mkt Cap (£m)	57.0
EV (£m)	55.0
Free Float*	53%
Market	AIM

**As defined by AIM Rule 26*

Description

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

Company information	
CEO	Keith Young
CFO	Keith Young
Chairman	Ian Murgitroyd
	+44 141 307 8400
	www.murgitroyd.com

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

Diary	
11 Sep	Final results
Oct'18	AGM

Analyst	
Mike Foster	020 7194 7633
	mf@hardmanandco.com

Murgitroyd

Positive trading update ahead of results

Murgitroyd's final results are due on 11 September. Cash and dividends are ahead of expectations (profit in line), as per a trading update provided on 31 August. Since March 2018, the dollar's recovery has been a helpful 'following wind' to Murgitroyd, whose dollar revenue is growing and now reaches 50% of the group total. We model group-wide organic constant currency sales growing a modest 1% in FY18, driven by an expansion in the range of support services. With a 14% EPS rise at the interim stage, the first-half-year results were good, accompanied by a 30% dividend rise. EPS forecasts should start to benefit from falling US tax rates.

- **Long term**: We look for group-wide margins to start to expand again and a broadening of support functions sold to clients, albeit this revenue is probably a lower gross margin generator. The benefit to the group's large client retention and overall expansion is clear.
- **Costs**: In recent times, Murgitroyd confirmed the investment into business development, as well as focusing down the number of offices. 1H'18 saw it initiate its single-biggest IT investment – a Client Portal – to remain at the cutting edge of client-service and productivity. We shall look at 2H cost ratios.
- **Divisional revenue trends**: Larger clients' revenues are driving growth, with continuing expansion in support services. Between FY13 and FY16, the support services division registered a 10.5% CAGR (raising the share of total sales from 29% to 36%), but growth at the rest of the group has been modest.
- **Risks**: The offer of a broad suite of services to a broad customer base, in focused markets, balances out any weakness in individual markets. There are, however, pricing pressures, so the ever-increasing offer of support functions (even including web-based) can add revenue and add to 'stickiness' with large clients.
- **Investment summary**: A trading update was provided to the market on 31 August. Trading was in line, apart from year-end cash, which we have raised to £3.0m, from £2.6m. Current cash is £3.2m. We had estimated a 2018 dividend of 19p, but the update indicates 21p.

Financial summary and valuation

Year-end May (£m)	2014	2015	2016	2017	2018E
Sales	38.4	39.8	42.2	44.3	46.0
EBITDA	4.6	4.5	4.6	4.2	4.5
PBT (adj.)	4.2	4.2	4.3	3.9	4.1
EPS (adj.) (p)	33.6	34.8	35.3	28.7	30.8
DPS (p)	13.3	14.8	16.0	17.0	21.0
Net (debt)/cash	-0.4	0.7	2.8	2.2	3.0
Net debt/EBITDA (x)	0.1	cash	cash	cash	cash
P/E (x)	18.5	17.9	17.6	21.9	20.6
EV/Sales (x)	1.4	1.3	1.2	1.2	1.1
EV/EBITDA (x)	11.9	12.4	11.9	13.0	12.4
FCF yield	5.8%	5.2%	6.8%	5.7%	4.9%
Dividend yield	2.2%	2.4%	2.6%	2.8%	3.3%

Note: estimates adjusted to exclude acquisition transaction costs *Source: Hardman & Co Research*

Financials

Source: Eikon Thomson Reuters

Market data

EPIC/TKR	**NSF**
Price (p)	63.2
12m High (p)	80.0
12m Low (p)	52.6
Shares (m)	313
Mkt Cap (£m)	198
EV (£m))	386
Free Float	99%
Market	Main

Description

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

Company information

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

Tel: +44 20 38699026

www.nonstandardfinance.com

Key shareholders (31 Jan'18)

Invesco	28.7%
Woodford Investment	26.8%
Marathon Asset Mgt.	10.3%
Aberforth Partners	10.2%
Quilter Cheviot AM	4.1%
ToscaFund	3.8%

Diary

November	Capital Markets day

Analyst

Mark Thomas 020 7194 7622

mt@hardmanandco.com

Non-Standard Finance

Positive 1H'18 results

We reviewed the 1H'18 results in our note, Jam today, more tomorrow, published on 9 August. NSF delivered tangible payback on prior and current investments, with normalised operating profits up 79% (statutory operating profit moved from a loss of £1.1m to a profit of £7.0m). Pre-tax profits were held back by the group locking in long-term, more expensive funding (finance costs £9.6m vs. £3.1m) but, as these funds are deployed, pre-tax profits are expected to rise. We believe the re-pricing and volume opportunities that NSF has in a downturn provide it with material counter-cyclicality. With £70m of additional debt funding now being put in place, NSF will be able to continue to fund its growth plans into 2020.

- **1H'18 results:** The key takeaway from the results was that credit quality was ahead of expectations. Customer numbers and volumes for the branch and guarantor loan businesses were ahead of our forecasts, while those for home collect, the smallest business, were a little below our expectations.

- **Other news:** NSF shares rose nearly 10% on the day of the results. Despite this rise, there has been broad director buying, which may be considered as a sign of confidence in NSF's markets and its positioning in them. MCL's trading statement, on 30 August, confirmed trading in line with market expectations.

- **Market news:** A press article in mid-July alleged that Amigo Loans had allowed customers to manipulate affordability checks and had an overly sales-driven culture. Amigo said its affordability checks had been "audited" by the FCA, and the shares have since recovered to above the IPO price.

- **Valuation:** We reviewed a range of valuation metrics (and sensitivities) in our initiation note, Carpe diem, and our results note. Our absolute valuation measures range from 91p to 103p. Peer comparisons reach up to 91p.

- **Investment summary:** Substantial value should be created, as i) competitors have withdrawn, ii) NSF is well capitalised, with significant debt funding, iii) it has positive macroeconomic drivers, and iv) it 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 operating division seem credible, and investors are paying 10x 2019E P/E.

Financial summary and valuation

Year-end Dec (£000)	2016	2017	2018E	2019E
Reported revenue	94,674	119,756	166,098	197,000
Total impairments	-25,705	-28,795	-39,728	-46,208
Total costs	-49,600	-67,706	-85,596	-93,760
EBITDA	19,369	25,181	35,443	50,638
Adj. prof. before tax	13,056	13,203	14,424	24,798
Stat. prof. before tax	-9,342	-13,021	-4,196*	11,348*
Pro-forma EPS (p)	3.37	3.44	3.72*	6.42*
DPS (p)	1.20	2.20	2.50	3.15
P/adj. earnings (x)	18.7	18.4	16.7	9.9
P/BV (x)	0.8	0.9	0.9	0.9
P/tangible book (x)	2.0	2.6	3.2	2.9
Dividend yield	1.9%	3.5%	4.1%	5.1%

*Source: Hardman & Co Research, *IFRS9*

Pharmaceuticals & Biotechnology

Source: Eikon Thomson Reuters

Market data	
EPIC/TKR	**OXB**
Price (p)	852
12m High (p)	1064
12m Low (p)	378
Shares (m)	65.8
Mkt Cap (£m)	560.2
EV (£m)	545.3
Free Float	63%
Market	LSE

Description

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

Company information

CEO	John Dawson
CFO	Stuart Paynter
Chairman	Lorenzo Tallarigo

+44 1865 783 000
www.oxfordbiomedica.co.uk

Key shareholders

Directors	0.3%
Vulpes	17.7%
M&G	17.7%
Canaccord Genuity	5.1%
Aviva	3.9%
Hargreaves Lansdown	3.7%

Diary

13 Sep	Interims

Analysts

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gp@hardmanandco.com

Oxford Biomedica

Kymriah approved by the European Commission

OXB is a specialist, advanced-therapy, lentivirus vector biopharma company. It offers vector manufacturing and development services, and has a proprietary drug pipeline. In addition to LentiVector® service contracts, OXB receives royalties on commercial therapies developed by its partners using the LentiVector platform. A partnership deal structure was established with Novartis for Kymriah™ in 2017, and a further three partnership and licensing deals have been completed in 2018. Kymriah was approved by the European Commission (EC) on 27 August 2018 in two blood cancers: ALL and DLBCL. OXB currently receives Kymriah royalties in the US.

- **Strategy**: OXB has four strategic objectives: delivery of process development (PD) 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.
- **Kymriah approval:** The EC has approved marketing of Kymriah for indications in ALL and DLBCL in European countries. Royalty payments to OXB will increase with market launches; however, country-specific access and reimbursement are yet to be finalised, and Novartis is initially rolling out in paediatric ALL only.
- **Gilead competition:** Yescarta, also a CAR-T therapy for blood cancers, was approved by the EC on the same day. It is manufactured by Kite (Gilead) and poses direct competition to Kymriah in DLBCL in Europe. It differs from Kymriah in its manufacture, being based on retrovirus, rather than lentivirus, vectors.
- **Risks:** OXB's mid-term sales model and its ability to pay off debt are dependent on successful progress of partners' clinical trials and commercialisation of LentiVector-enabled products, for receipt of bioprocessing milestones and royalty payments. All gene-therapy candidates are subject to significant clinical risk.
- **Investment summary:** OXB is at a very interesting juncture. Heavy investment in state-of-the-art GMP manufacturing facilities for production of gene-therapy vector has resulted in supply agreements with Novartis, Bioverativ, AXON, and now in cystic fibrosis, on top of existing partnerships – positioning the group on the road to significant bioprocessing service income, milestones and royalties.

Financial summary and valuation

Year-end Dec (£m)	2015	2016	2017	2018E	2019E	2020E
Sales	15.91	27.78	31.49	43.80	58.20	79.30
EBITDA	-11.73	-6.78	-2.63	15.68	15.83	25.51
Underlying EBIT	-13.35	-10.45	-7.00	11.25	10.98	20.20
Reported EBIT	-14.08	-11.32	-5.67	10.19	9.82	18.94
Underlying PTP	-16.25	-15.34	-16.38	6.87	6.91	16.17
Statutory PTP	-16.98	-20.31	-11.76	5.81	5.75	14.91
Underlying EPS (p)	-23.91	-21.00	-21.99	15.90	15.61	31.53
Statutory EPS (p)	-25.33	-29.95	-14.56	14.25	13.83	29.61
Net (debt)/cash	-17.90	-19.05	-22.54	-2.26	-4.37	5.76
Shares issued (m)	0.14	17.50	0.39	19.40	0.10	0.10
P/E (x)	-	-	-	-	-	27.0
EV/sales (x)	-	-	-	-	-	21.4

Source: Hardman & Co Life Sciences Research

Real Estate

Source: Eikon Thomson Reuters

Market data

EPIC/TKR	**PHP**
Price (p)	114
12m High (p)	118
12m Low (p)	105
Shares (m)	730
Mkt Cap (£m)	832
EV (£m)	1455
Market	Main, LSE

Description

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

Company information

CEO	Harry Hyman
CFO	Richard Howell
Chairman	Steven Owen

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

Key shareholders

Directors	2.5%
BlackRock	5.5%
Investec Wealth	4.9%
Charles Stanley	4.5%
Unicorn Asset Mgt.	4.2%
Troy	3.9%

Diary

Feb'19	Full-year results
Apr'19	AGM
Jul'19	Interim results

Analyst

Mike Foster 020 7194 7633
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Primary Health Properties

Cash deployment, rent rises, cost of debt falling

PHP's 1H'18 results, reported on 25 July, showed £1.42bn investment assets and a contracted rent roll of £74.4m (+7.4%). The 2018 £115m equity raise is being deployed, with a currently stated £175m acquisition pipeline. Our model assumes an acquisition rate of £100m p.a. With deployment of the proceeds of this year's equity raise progressing and with falling blended interest rates payable on outstanding debt, we model good EPS growth of 7% plus in the next two or three years. Set against our current estimates of 3% p.a. dividend rises per share, there is clear scope for the rate of dividend growth to rise in the future.

- **Rents improving**: Open-market rent reviews in recent years have been typically sub-1%. This does not reflect rises in build costs in recent years. NHS has funding but reorganisation in the past years has taken an administrative toll on new building commissioning with a knock-on to rents. This is starting to ameliorate.
- **1H'18 results**: DPS rose 3.1%. Cost of debt fell again (3.86% p.a. vs. 4.09%). Acquisitions are proceeding well, with £48.6m since year-end. Importantly, these are of good 'lot size'. EPRA EPS fell 3.8% as a result of the initial dilution from the oversubscribed £115m March equity raise (total earnings rose 11.0%).
- **Republic of Ireland (RoI) is a growth driver**: RoI is a growing element for PHP, with its portfolio expansion weighted here. Yields are still nearly 100bps higher in RoI vs. Britain, and with a lower debt cost. Our LTV end-2020 estimate is 47.2%, giving scope to acquire more, both in the UK and RoI, enhancing EPRA EPS.
- **Risks:** The debt maturity profile has lengthened YoY (5.9 years' average), reducing refinance risk YoY, while also still lowering cost of debt. Were rent growth to remain subdued, DPS growth should remain at ca.3%, but cover rebuilds to over 100% under any scenario. Indeed, 2018 dividends, cash paid, are fully covered.
- **Investment summary:** PHP is in its 22nd year of stockmarket listing and its 22nd year of dividend rises. Investment, including the now fast-growing, higher-yielding market in RoI, and deployment of equity and ongoing cost optimisation, underpin good support for dividend growth. On valuation grounds, based on asset and cashflow security, the dividend yield attracts.

Financial summary and valuation

Year-end Dec (£m)	2016	2017	2018E	2019E	2020E
Income	67.4	72.5	78.0	84.0	91.0
Finance cost	-32.5	-31.6	-29.8	-27.9	-28.5
Declared profit	43.7	91.9	67.2	73.0	80.0
EPRA PBT (adj. pre-rev.)	26.7	31.0	37.2	44.5	50.0
EPS reported (p)	7.8	15.3	9.6	9.4	10.0
EPRA EPS (fully-diluted) (p)	4.7	5.1	5.3	5.7	6.2
DPS (p)	5.12	5.25	5.40	5.55	5.70
Net debt	-663.2	-726.6	-709.0	-742.7	-837.8
Dividend yield	4.5%	4.7%	4.8%	4.9%	5.0%
Price/EPRA NAV	1.25	1.13	1.09	1.06	1.01
NAV (p)	83.5	94.7	100.2	103.8	108.1
EPRA NAV (p)	91.1	100.7	104.9	108.1	112.5

NB: 2017, 2018E EPRA EPS excl. performance fee, diluted: 5.21p, 5.39p *Source: Hardman & Co Research*

Food Producers

Source: Eikon Thomson Reuters

Market data	
EPIC/TKR	**RE.**
Price (p)	315.0
12m High (p)	361.0
12m Low (p)	282.0
Shares Ord (m)	40.5
Shares Prefs (m)	72.0
Mkt Cap Ord (£m)	127.6
Mkt Cap Pref (£m)	76.3
EV ($m)	506.6
Free Float	30%
Market	Main

Description

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

Company information

Managing Director	Carol Gysin
Chairman	David Blackett
	+44 20 7436 7877
	www.rea.co.uk

Key shareholders

Directors	28.55%
M & G Investment Mgt.	14.97%
Alcatel Bell Pension Fund	10.32%
Artemis Investment Mgt.	8.83%
Aberforth Partners	7.30%

Diary

17 Sep	Interim results

Analyst

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R.E.A. Holdings

New loan agreement and completion of sale of PBJ

On 28 August, REA announced that the company had arranged a new $32.5m loan agreement with Bank Mandiri for its subsidiary SYB, with an initial rate of 11% p.a. repayable over eight years. This loan is to replace the previous term loan of $9.2m and some $1m of revolving credit facilities with DBS, which has a considerably higher interest rate, averaging over 12%. On 31 August, REA announced that they have completed the sale of PBJ to Malaysian KLK, with expected gross proceeds in the range of $85m. We expect REA's borrowings will be further reduced following the sale of PBJ. REA will be announcing its 1H'18 results on 21st September.

- **Strategy**: REA saw a significant improvement in cropping in the first five months of the year, reporting a 29.6% increase of own crop, to 263,000mt, compared with 2017. There are indications that the current crop rate will continue into at least August. Should the current harvest rate continue, we would expect to raise our forecasts.
- **Landbank**: REAK, the principal division of REA, has a total landbank of some 110,000ha. Following the PBJ transaction, REA will focus on the development of the company's 10,000ha readily plantable landbank. This should bring the proprietary plantations to ca.50,000ha by 2021 or 2022, when fully developed.
- **Palm oil price:** The average CPO price achieved by the group for the first five months of 2018 was 11% lower vs. 2017, at $554/mt FOB net of export levy and duty. The global palm oil price has weakened over the same period, and the CIF Rott price averaged ca.$557/mt in August, against an average $593/mt in July, the lowest monthly average price since November 2015.
- **Risks:** Agricultural risk, commodity price risk and country risk are constants of palm oil production. The deleveraging of the balance sheet, to give 2018 projected net debt to equity of 66.5% (76.5%) with the sale of the PBJ estate, will help to reduce funding risk, which is a standard threat to plantation projects.
- **Investment summary:** REA has scope to develop a planted estate of some 50,000ha. We believe the group's financial performance will undergo significant change from 2019. We are assuming some 34,000ha of mature plantations for end-2019, coupled with stronger agricultural production across the estates, and a firmer CPO price. If these factors align as anticipated, then this will mark the point at which the business becomes self-sustaining.

Financial summary and valuation

Year-end Dec ($m)	2015R	2016	2017	2018E	2019E
Sales	90.5	79.3	100.2	119.9	134.4
EBITDA	14.1	16.8	20.7	39.1	44.9
Reported EBIT	-6.6	-5.0	-2.2	15.9	21.5
Pre-tax profit	-12.2	-9.3	-21.9	1.4	10.6
EPS (c)	-59.0	-48.2	-67.0	-23.2	-4.2
Dividend per share (p)	0.0	0.0	0.0	0.0	0.0
Net (debt)/cash	-196.7	-205.1	-211.7	-178.2	-189.8
P/E (x)	-	-	-	-	-
Planted hectares (ha)	37,097	42,846	44,094	39,974	42,976
EV/planted hectare ($/ha) *	13,657	12,700	12,323	13,548	12,561
CPO production (mt)	161,844	127,697	143,916	183,616	200,079

Source: Hardman & Co Research

**EV/planted ha includes mkt. cap. of the 9% pref. shares and 15% DSN; R = restated*

Pharmaceuticals & Biotechnology

Source: Eikon Thomson Reuters

Market data	
EPIC/TKR	**REDX**
Price (p)	8.2
12m High (p)	28.6
12m Low (p)	3.5
Shares (m)	126.5
Mkt Cap (£m)	10.3
EV (£m)	3.3
Free Float*	69%
Market	AIM

**As defined by AIM Rule 26*

Description

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

Company information

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

Key shareholders

Directors	0.5%
Jon Moulton	18.2%
Seneca Partners	12.5%
AXA	9.8%
Aviva	8.4%

Diary

2H'18	Submit revised protocol for Phase I with RXC004
Nov'18	Final results

Analysts

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Redx Pharma

Progress with the pipeline

REDX's new management team is focusing its financial resources on progressing its lead candidates in oncology and fibrotic disease into the clinic. Although the first patient was treated recently in a Phase I/II proof-of-concept trial with its porcupine inhibitor RXC004, some on-target adverse events (anticipated at higher doses) were observed, which caused management to take the prudent decision to stop patient recruitment and prepare a revised protocol to the MHRA for end-2018. Meanwhile, REDX is continuing to progress its development strategy, with a new CEO now on board and a period-end cash balance of ca.£5.5m.

- **Strategy:** REDX focuses on discovery and early clinical development of small molecule therapeutics in the fields of oncology and fibrotic disease. It aims to bring assets through proof-of-concept clinical trials and then partner them with the drug major(s) for late-stage development and commercialisation.

- **Interims:** REDX reported progress on its R&D pipeline, which is now focused on two key high value-added areas of cancer and fibrotic disease. Management has tightened control on costs, with a lower spend in SG&A and R&D, reducing the annual cash burn by ca.£5m p.a.

- **RXC004 trial:** A decision was made to temporarily suspend the Phase I/IIa trial with RXC004 in light of adverse events in the first patient dosed. Early data suggest a higher exposure and longer half-life in humans that could not have been predicted. A lower dose protocol is expected to be submitted in 2H'18.

- **Risks:** REDX has emerged from a difficult period in much better shape, allowing management to concentrate on bringing the assets to important value inflection points. While all early-stage pharma/biotech companies carry substantial risks, REDX's strategy was validated by the disposal of the BTK programme, for $40m.

- **Investment summary:** REDX had already started the process of refining its strategy, but recent events have simply accelerated this evolutionary process. The revised business plan focuses cash resources on early clinical development of its drug leads in oncology and fibrotic disease. The commencement of clinical trials represents an important milestone not yet reflected in the valuation.

Financial summary and valuation

Year-end Sep (£000)	2015	2016	2017	2018E	2019E	2020E
Milestones/royalties	0	0	0	0	0	0
Other income	2,648	2,380	1,291	1,000	1,000	1,000
R&D investment	-9,463	-14,315	-13,000	-6,528	-11,078	-11,410
SG&A (corp. cost)	-2,008	-2,212	-5,698	-3,150	-3,276	-3,407
Underlying EBIT	-8,823	-14,147	-17,407	-8,678	-13,354	-13,817
Underlying PBT	-9,112	-14,606	-17,737	-8,648	-13,327	-13,817
Statutory PBT	-8,825	-15,407	1,646	-9,240	-13,547	-14,057
R&D tax credit	650	637	-118	392	665	685
Underlying EPS (p)	-14.6	-17.8	-15.8	-6.5	-8.8	-8.2
Statutory EPS (p)	-14.1	-19.8	1.4	-7.0	-9.0	-8.4
Net (debt)/cash	7,436	3,758	23,806	5,595	2,718	-10,382
Capital increase	13,447	9,296	11,066	0	10,000	0

Source: Hardman & Co Life Sciences Research

Pharmaceuticals & Biotechnology

Source: Eikon Thomson Reuters

Market data	
EPIC/TKR	**SCLP**
Price (p)	12.1
12m High (p)	19.4
12m Low (p)	9.7
Shares (m)	387.8
Mkt Cap (£m)	46.9
EV (£m)	35.9
Free Float*	82%
Market	AIM

**As defined by AIM Rule 26*

Description

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

Key shareholders	
Directors	5.0%
Calculus Capital	13.0%
City Financial	5.7%
Legal & General	4.7%
Hygea VCT	3.4%

Diary	
2Q'18	US IND SCIB1 + CPI
4Q'18	SCIB1 Phase II
Sep'18	Finals

Analysts

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Scancell Holdings

Extended Karolinska research collaboration

SCLP is a clinical-stage biotechnology company developing two distinct flexible cancer immunotherapy platforms, each with broad applications: ImmunoBody® is a DNA vaccine that stimulates high-avidity anti-tumour CD8 T-cells for use as a monotherapy or in combination with checkpoint inhibitors (CPIs); Moditope® targets modified antigens and stimulates powerful anti-tumour CD4 T-cell responses for use in advanced and hard-to-treat cancers. The company raised £8.7m of gross new capital by way of a Placing, Subscription and Open Offer in order to support and progress its clinical trial programmes.

- **Strategy**: SCLP is developing two proprietary immuno-oncology platforms that 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 multiple indications.

- **Capital increase:** SCLP completed a capital increase to raise gross new funds of £8.7m (est. £8.0m net) in order to progress its clinical trial programmes. It will start a late-stage melanoma combination study with SCIB1 + checkpoint inhibitor in 4Q'18, and a first-in-man breast clinical trial with Modi-1 in 1H'19.

- **SCIB1 administration:** SCLP has exercised its commercial option with Ichor to use its new TriGrid 2.0 electroporation delivery system for administration of SCIB1, an ImmunoBody vaccine, in combination with a checkpoint inhibitor for the planned Phase II trial in patients with advanced melanoma.

- **Karolinska collaboration:** SCLP has extended its strategic research collaboration with the Karolinska Institute in Sweden, originally signed in 2016, to explore the role of citrullinated proteins in the control of tumour growth. The aim is to further explore the potential of the Moditope platform for a range of cancers.

- **Investment summary:** SCLP is trading on an EV of ca.£36m, compared with a cumulative investment of £36m to get the company to where it is today, which is low compared with its relevant peers. SCLP's proprietary technologies are in the 'hot' area of immuno-oncology and targeting markets of significant unmet medical need. Recent deals have demonstrated the price that big pharma is willing to pay for validated assets in the field.

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	-3.5	-5.9	-7.8
SG&A	-0.75	-1.00	-1.73	-2.0	-2.1	-2.2
Underlying EBIT	-2.87	-3.01	-4.50	-5.5	-8.0	-10.0
Reported EBIT	-2.96	-3.04	-4.55	-5.6	-8.1	-10.1
Underlying PBT	-2.74	-2.99	-4.44	-5.5	-8.0	-10.0
Statutory PBT	-2.83	-3.03	-4.50	-5.5	-8.0	-10.1
Underlying EPS (p)	-1.03	-1.12	-1.34	-1.5	-1.8	-2.2
Statutory EPS (p)	-1.07	-1.14	-1.36	-1.5	-1.8	-2.2
Net (debt)/cash	3.06	6.53	2.67	9.8	3.8	-5.0
Capital increase	0.00	5.79	0.00	11.6	1.2	0.0
P/E (x)	-	-	-	-	-	-

Source: Hardman & Co Life Sciences Research

Automobiles and parts

Source: Eikon Thompson Reuters

Market data

EPIC/TKR	**SCE**
Price (p)	20
12m High (p)	24
12m Low (p)	14
Shares (m)	123
Mkt Cap (£m)	25
EV (£m)	23
Free Float*	86%
Market	AIM

**As defined by AIM Rule 26*

Description

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

Company information

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

+44 151 356 2141
www.surfacetransforms.com

Key shareholders

Directors	13.8%
Hargreave Hale	15.4%
Unicorn Asset Mgt.	13.4%
Richard Gledhill (director)	11.8%
Hargreaves Lansdown	5.4%
Richard Sneller	4.9%
Barclays Wealth	3.6%
Rathbone	3.1%

Diary

Sep'18	Full-year results

Analyst

Mike Foster 020 7194 7633
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Surface Transforms

Results due later in September

Surface Transforms manufactures and sells carbon-fibre reinforced ceramic brake discs. Latest trading announcements have been in line with expectations, with actual and potential OEM clients continuing to engage on testing, pre the start of production. Surface Transforms and OEM 5 have agreed a 3Q'18 test date for final track testing, this being the final stage to complete engineering approval. This is a test that the company has completed on many occassions. Further preparation for volume production continues apace with the recent accreditation of the company to IATF 16949.

- **A large market, an inflection point:** The company is the only alternative to the current near-monopoly supplier, a position unusual in auto-component supply. The OEM auto market size is currently well over £100m and is just at the early 'exploratory' stage. A £1bn+ market should be seen in a few years.
- **Cashflow:** On 27 June, Surface Transforms raised £1.53m (gross) from placing 9m new shares at 17p. Our numbers assume 2019 and 2020 cumulative capital expenditure of £1.5m, with a minimal amount in 2021, as the 2020 capex finalises the spend on manufacturing cell 1.
- **Capacity allocation model:** OEM production cell 1 is potentially completely allocated to Aston Martin, OEM 3 and OEM 5. OEM 2 and OEM 4 follow in the wake of OEM 3, and will require additional capacity. Once an OEM announces a model, volumes are virtually assured, as models have customer waiting lists.
- **Risks:** Investment comes ahead of firm orders, and ahead of profit. The company has no control over the timeline of auto OEMs' new models. Surface Transforms receives revenue from a number of sources, but is still in cash burn. The larger modern factory has been commissioned – a further major de-risking.
- **Investment case:** This is a large, growing market, 99% supplied by one player – a fact that gives great support to Surface Transforms' prospects. As volumes rise, prices fall, which is the trigger to utilisation on greater volume models. Surface Transforms is progressing with development for six auto OEMs. Current revenue is from a well-established business selling to retrofit and 'near OEMs'.

Financial summary and valuation

Year-end May (£m)	2017	2018E	2019E	2020E	2021E
Sales	0.7	1.4	2.6	7.5	10.9
EBITDA	-2.4	-1.7	-0.8	1.2	2.1
EBITA	-2.5	-2.0	-1.4	0.7	1.5
PBT	-2.5	-2.0	-1.8	0.7	1.5
PAT	-2.2	-1.5	-1.3	1.0	1.9
EPS (adj.) (p)	-2.3	-1.4	-1.0	0.8	1.5
Shareholders' funds	4.0	5.8	5.6	6.8	8.7
Net (debt)/cash	1.5	1.4	1.7	1.9	3.2
P/E (x)	loss	loss	loss	18.0	10.0
EV/sales (x)	38.8	16.4	8.8	3.1	2.0
EV/EBITDA (x)	n.a.	n.a.	n.a.	19.2	10.0
DPS (p)	nil	nil	nil	nil	nil

NB PBT adj. loss £1.3m, FY16A, PBT £4.6m, FY22E. *Source: Hardman & Co Research*

Industrial Engineering

Source: Eikon Thomson Reuters

Market data	
EPIC/TKR	**SIXH**
Price (p)	18.0
12m High (p)	18.5
12m Low (p)	13.25
Shares (m)	113.1
Mkt Cap (£m)	20.4
EV (£m)	32.0
Free Float*	72.1%
Market	AIM

**As defined by AIM Rule 26*

Description

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

Company information

Executive Chairman	Paul Dupee
CFO	Neil Carrick

+44 1924 415000
www. 600group.com

Key shareholders

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

Diary

Sep'18	AGM
Dec'18	Interims

Analyst

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The 600 Group

Trading healthy, pension buyout, dividend restored

The 600 Group remains competitively well positioned, with a world-class reputation in Machine Tools and Laser Marking. 65% of sales are in the US. Business momentum is healthy, with growth enhanced by new product launches and new market entry. The shares are attractively valued against the peer group on a DCF basis and now offer an appealing yield.

- **2017/18 financials:** The 2017/18 results trading update was positive, with results much as expected, reflecting the healthy operating environment. As previously announced, the buyout of the group's pension was agreed at $266m, with the cash surplus, estimated at $4m-$5m, used to pay down group debt. Order books are healthy, and our 2018/19 forecasts are broadly maintained.

- **Dividend restored:** The group has restored its dividend at 0.5p per share, payable on 28/09/18. This reflects the resolution of the pension scheme, the good operational performance and the favourable commercial outlook. The group's future dividend policy is based upon stability, with growth largely in line with earnings.

- **Prospects:** Growth will be driven primarily organically, with new product developments in both business areas and new geographical market entry continuing. The group is undertaking a UK restructuring programme to reduce capex requirements and further improve margins in the medium term.

- **Competitive position:** The 600 Group has strong global brand recognition with, as a key differentiator, the provision of high-service/customer support. The group is regarded as well positioned within highly competitive and fragmented industries, where barriers to entry are generally low.

- **Investment summary:** The shares offer the opportunity to invest in a de-risked cyclical stock with good operational leverage, enhanced by new product launches and new market entry. Cyclicality has been de-risked through further development of repeat/recurring business and activities in high-margin, economically less sensitive spares/services operations. The group remains in a solid financial position. The risk/reward profile is favourable, and the shares are attractively valued on most methodologies, now offering an appealing yield.

Financial summary and valuation

Year-end March ($m)	2017	2018	2019E	2020E
Sales	58.8	66.0	69.9	74.1
Gross profit	20.5	23.0	24.6	25.9
EBITDA	4.5	4.9	5.6	6.1
Underlying EBIT	3.8	4.2	5.0	5.5
Underlying PTP	2.7	3.1	3.9	4.5
Underlying EPS (c)	2.7	3.2	3.2	3.6
Statutory EPS (c)	2.7	3.7	7.1	3.6
Net (debt)/cash	-17.1	-15.6	-10.1	-7.7
Dividend (p)	0.00	0.50	0.60	0.72
P/E (x)	6.8	7.3	7.4	6.4
Yield		2.8%	3.3%	4.0%

Source: Hardman & Co Research

Pharmaceuticals & Biotechnology

Source: Eikon Thomson Reuters

Market data

EPIC/TKR	**TRX**
Price (p)	8.5
12m High (p)	13.3
12m Low (p)	5.6
Shares (m)	1,171.6
Mkt Cap (£m)	99.6
EV (£m)	83.2
Free Float*	27%
Market	AIM

**As defined by AIM Rule 26*

Description

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

Company information

CEO	Steve Couldwell
CFO (interim)	Paul Below
Chairman	John Samuel
	+44 330 430 3052
	www.tissueregenix.com

Key shareholders

Directors	4.3%
Invesco	28.7%
Woodford Inv. Mgt.	26.0%
IP Group	13.7%
Baillie Gifford	4.2%

Diary

3 Sep	Interims

Analysts

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Tissue Regenix

Interim results – due 3 September

TRX has a broad portfolio of regenerative medicine products for the biosurgery, orthopaedics, dental and cardiac markets. The company has two proprietary decellularised technology platforms for the repair of tissues and bone. 2017 was a dynamic year for the group, growth being boosted by the acquisition of CellRight Technologies in August, which was borne out by the 2017 full-year results. In anticipation of the 2018 interim numbers, to be released on 3 September, we outline our forecasts for reported and *pro forma* sales growth. This monthly piece is an excerpt of our larger August report, intended as a preview for investors.

- **Strategy:** To build an international regenerative medicine business with a portfolio of products using proprietary dCELL and BioRinse technology platforms, underpinned by compelling clinical outcomes. TRX is looking to expand its global distribution network, via strategic partnerships, to drive sales momentum.

- **Interims preview:** Reported group sales are forecast to grow 273% in 1H'18 to £5.1m (£1.4m), with all three business areas contributing to growth. On a *pro forma* basis, as if CellRight had been acquired on 1 January 2017, the underlying growth rate is forecast to be a very respectable 33%, from £3.9m in 1H'17.

- **EBITDA:** Although the new management team is continuing to focus on controlling costs, a full six months of CellRight costs are included in 1H'18, and the 1H'18 SG&A number includes potential legal fees. Consequently, the EBITDA loss will rise (in 1H'18 only), to an estimated -£4.9m (-£4.8m).

- **CFO:** In July, TRX confirmed the appointment of a new CFO. Gareth Hywel Jones (start date 30 November) will take over from Paul Below, who is the current interim CFO. Mr Jones is joining from Applied Graphene Materials, and brings a great deal of experience from UK- and US-listed businesses and private equity.

- **Investment summary:** TRX is building commercial momentum through three value drivers: sales of BioSurgery products in the US; expansion of combined CellRight and TRX technologies in Dental, Orthopaedics and Spine; and preparation for the OrthoPure XT launch in the EU in 2018. Early signs of the benefits derived from CellRight are apparent, which should hasten the time to reach sustainable profitability.

Financial summary and valuation

Year-end Dec (£m)	*2016	**2016	2017	2018E	2019E	2020E
Sales	0.82	1.44	5.23	11.62	18.68	25.54
EBITDA	-9.86	-10.55	-8.98	-9.43	-4.36	-0.44
Underlying EBIT	-10.11	-10.85	-9.69	-10.59	-5.53	-1.65
Reported EBIT	-10.24	-11.06	-10.82	-10.69	-5.63	-1.75
Underlying PBT	-9.89	-10.74	-9.64	-10.56	-5.53	-1.66
Statutory PBT	-10.03	-10.95	-10.77	-10.66	-5.63	-1.76
Underlying EPS (p)	-1.26	-1.28	-0.90	-0.83	-0.41	-0.09
Statutory EPS (p)	-1.28	-1.30	-1.02	-0.84	-0.42	-0.09
Net (debt)/cash	19.91	8.17	16.42	5.26	-2.11	-4.69
Capital increase	19.02	0.00	37.99	0.00	0.00	0.00
P/E (x)	-	-	-	-	-	-
EV/sales (x)	-	-	15.9	7.2	4.5	3.3

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

Construction & Materials

Source: Eikon Thomson Reuters

Market data	
EPIC/TKR	**TON**
Price (p)	189.0
12m High (p)	217.0
12m Low (p)	129.0
Shares (m)	11.1
Mkt Cap (£m)	21.0
EV (£m)	19.7
Free Float	97%
Market	MAIN

Description

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

Company information

Executive Chairman	Keith Ritchie
Chief Executive	David Ruffell

+44 1206 713 800
www.titonholdings.com

Key shareholders

Rights & Issues IT	11.4%
MI Discretionary UF	7.2%
Chairman	8.8%
Other Directors	7.9%
Founder/NED	15.7%
Family	6.9%

Diary

30 Sep	Year-end
Dec'18	Final results

Analyst

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Titon Holdings Plc

Volume to 11

"The numbers go to eleven" said guitarist Nigel Tufnel about the volume button on his amplifier (most amps only go to 10) in 'This is Spinal Tap' – probably the best rock and roll movie ever. In August, Titon saw its share volumes crank up to 11, with two 50,000-plus trading days within six sessions (17th to 24th); and there's only been eight like it in the past year. The shares rose 17% to 189p.

- **Opening number(s):** In the past 12 months (252 working days), the average number of Titon shares traded daily is 11,609, including 27 days when there was no audible trade. As above, too, there have only been eight days when the volume was above 50,000; and, in August, 'clearly more buyers than sellers'.

- **Stage set 1:** South Korea is the loudest contributor to Group net profit (74% in 1H) and it places 11 amongst world economies. The Nation is also forecast to grow GDP 2.8% in both 2018 and 2019 says FocusEconomics. Yes, 2018 is now 0.1% lower but this is due largely to rising global creative trade tensions.

- **Stage set 2:** The UK accounted for a musical 36% of 1H Segment Profit. No, Titon's home market it is not without its challenges, including a possible 'no deal' Brexit in D minor (melody's saddest key). Yet, even the bluest band member is listening to GDP growth of between 1% and 2% in 2018 through 2020.

- **Show stopper:** UK Construction Output is set to play into a dip this year of 2.1% in real time (+5.2% in 2017), as both Public and Commercial Building are turned down according to an Experian composition. The volume of Private Housing Output, however, is forecast to increase 3% this year and next – and by 4% in 2020, with Public Housebuilding rising by a tuneful 3% next year (after a flat 2018) and by 6% in 2020. Housing is the core domestic sector for Titon.

- **Encore:** The Hardman UK Building Materials Sector comprises 23 players with a resonant value of £8.1bn and an average valuation of 9.0x EV/EBITDA (including minorities) on a trailing 12-month basis. Titon places below middle chord in the table at 8.0x – despite being lead vocal in the rhapsody of Total Return to Shareholders (TSR), with 37.1% in 12 months; the Sector average TSR is just 3.4%.

Financial summary and valuation

Year-end Sep (£m)	2015	2016	2017	2018E	2019E	2020E
Sales	22.3	23.7	28.0	28.6	30.2	31.9
EBITDA	2.13	2.33	2.46	2.81	3.04	3.26
Underlying EBIT	1.56	1.77	1.85	2.13	2.29	2.43
Statutory PTP	1.87	2.14	2.49	2.91	3.20	3.50
Underlying EPS (p)	12.6	15.2	16.3	18.0	19.5	21.0
Statutory EPS (p)	12.6	15.2	16.3	18.0	19.5	21.0
Net (debt)/cash	2.9	2.4	3.3	3.7	4.1	4.6
Shares issued	10.8	10.9	11.1	11.1	11.1	11.1
P/E (x)	15.0	12.4	11.6	10.5	9.7	9.0
EV/EBITDA (x)	9.0	8.7	8.0	6.9	6.3	5.8
DPS (p)	3.00	3.50	4.20	4.90	5.75	6.00
Dividend yield	1.6%	1.9%	2.2%	2.6%	3.0%	3.2%

Source: Hardman & Co Research

Pharmaceuticals & Biotechnology

Source: Eikon Thomson Reuters

Market data

EPIC/TKR	**VAL**
Price (p)	2.34
12m High (p)	7.8
12m Low (p)	0.9
Shares (m)	455.0
Mkt Cap (£m)	10.65
EV (£m)	12.2
Free Float*	99%
Market	AIM

**As defined by AIM Rule 26*

Description

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

Company information

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

Key shareholders

Directors	0.5%

Diary

Sep'18	Interims
2H'18	Read-out VAL201
2H'18	Phase I VAL301

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ValiRx

Interim results – due end-September

VAL is a clinical-stage biopharmaceutical company focused on the development of therapeutics for the treatment of cancer. 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. Both drugs are targeted at multi-billion-dollar markets that are inadequately served by current drugs. Following completion of the Phase II trial with VAL401, the focus is now on building up the commercial package and the next stage of its clinical pipeline.

- **Strategy:** VAL operates as a virtual business, outsourcing most of its activities. The core strategy is to develop its therapeutic assets through the clinical pathway and seek a partner/licensing deal to complete the development programme and regulatory submissions to commercialise the products.
- **Advisory board:** A group of oncologists and end-of-life care specialists have been consulted to gather opinion on the clinical results and potential impact of VAL401 in late-stage cancer patients. In addition to its anti-cancer aspect, the consensus was that the supportive benefits of VAL401 were just as important.
- **VAL401:** VAL401 achieved an overall response rate of 60% and improved the quality of life in patients with late-stage lung cancer. There was some evidence to show that VAL401 improves the disease symptoms, suggesting a palliative effect, and could be a good candidate for a combination study.
- **Risks:** New and/or first-in-class drugs carry the risk that they might fail in clinical trials. However, the substantial safety history of the active ingredient in VAL401 and the consistent safety record in the VAL201 trial mitigate these risks. More capital will be needed to further its proprietary assets along the value chain.
- **Investment summary:** VAL appears to be under-appreciated by the market. Reasons for this include the lack of institutional support and a continuing need for more capital to advance its clinical programmes, thereby building value. Given the clinical progress seen to date, the company should be attracting potential commercial partners and/or institutional investors in order to achieve the real value of its assets.

Financial summary and valuation

Year-end Dec (£000)	2015	2016	2017	2018E	2019E	2020E
Sales	83	0	0	0	0	0
SG&A	-1,645	-1,666	-1,467	-1,511	-1,587	-1,587
R&D	-1,543	-2,375	-1,747	-1,834	-2,201	-2,641
EBITDA	-2,877	-3,939	-2,938	-3,158	-3,600	-4,040
Underlying EBIT	-2,888	-3,949	-2,948	-3,345	-3,788	-4,228
Reported EBIT	-3,029	-3,987	-3,125	-3,345	-3,788	-4,228
Underlying PBT	-2,889	-4,288	-3,398	-3,377	-3,829	-4,286
Statutory PBT	-2,567	-5,569	-3,554	-3,377	-3,829	-4,286
Underlying EPS (p)	-7.7	-6.0	-1.9	-0.7	-0.7	-0.8
Statutory EPS (p)	-6.7	-8.2	-2.0	-0.7	-0.7	-0.8
Net (debt)/cash	232	-734	311	-1,583	-4,968	-8,722
Capital increase	2,681	2,615	3,602	1,051	0	0

Source: Hardman & Co Life Sciences Research

Personal Products

Source: Eikon Thomson Reuters

Market data

EPIC/TKR	**W7L**
Price (p)	257.5
12m High (p)	265.0
12m Low (p)	150.0
Shares (m)	76.7
Mkt Cap (£m)	197.6
EV (£m)	195.7
Free Float*	34.7%
Market	AIM

**As defined by AIM Rule 26*

Description

Warpaint is a UK-based colour cosmetics specialist that sells creative, design-focused and high-quality cosmetics at affordable prices. The company comprises of two divisions: own-brand (W7, Retra and others) and close-out. It has a presence in more than 60 countries worldwide.

Company information

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

+44 1753 639 130

www.warpaintlondonplc.com

Key shareholders

Directors*	50.6%
Schroder Inv. Mgt.	10.1%
BlackRock Inv. Mgt.	9.9%
Hargreave Hale	3.1%
J O Hambro Capital Mgt.	2.0%
Columbia Threadneedle	1.8%

**includes shares held by directors' wives*

Diary

Sep'18	Interim results

Analyst

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Warpaint London PLC

Acquisition of US distribution business

On 10 August, Warpaint announced the acquisition of Marvin Leeds Marketing Services Inc, its US distributor, for a total consideration of $2.16m in cash, subject to an adjustment to the net assets acquired. The acquisition will provide better access to and control of some of its key customers in the US, while also being a platform for further expansion in the Americas. The company is now well placed for the next phase of development – namely new product development and increasing market share, both domestically and internationally, particularly in its two key markets, the US and China. Warpaint will be announcing its 1H'18 results in September.

- **The deal**: Warpaint has acquired Marvin Leeds Marketing Services Inc (Leeds Marketing) for $2.16m in cash, subject to an adjustment to the net assets acquired. So far, the company has paid $2.0m, with two further payments of $0.08m due at the end of September and December.
- **Leeds Marketing** is a New York-based distributor focusing primarily on the US and Canada. It had an exclusive distribution agreement with Warpaint for the US until January 2018, accounting for two-thirds of its revenue. In the year to 31 December 2017, it had $5.9m revenues and $0.4m adjusted PBT.
- **Opportunities:** Leeds Marketing distributes to some major US discount retailers such as the TJX Group and Bealls Outlet Stores. It has also opened accounts recently with Century 21, Forever 21 and Macys Backstage. The acquisition provides Warpaint with direct access to its key customers in the US, as well as expansion opportunities in North America.
- **Risks:** For Warpaint to remain successful, several key factors have to be considered: i) the continuing growth in the discount retail sector; ii) the successful integration of the new acquisitions; and iii) the company's ability to deliver new and innovative products.
- **Investment summary:** Warpaint has made considerable progress since the acquisition of Retra. Now, with the acquisition of Leeds Marketing, the company is well positioned to maximise the benefit of the additional assets. It also has a much faster growth rate than the rest of the colour cosmetics sector, and has a very attractive RoE. Warpaint offers the opportunity to invest in the fast-growing colour cosmetics sector, with a highly experienced management team.

Financial summary and valuation

Year-end Dec (£m)	2016	2017	2018E	2019E	2020E
Sales	22.5	32.5			
EBITDA (adj.)	6.3	8.0			
Operating profit (adj.)	6.2	7.3	Forecasts	Forecasts	Forecasts
PBT (adj.)*	6.1	7.7	under	under	under
Adj. basic EPS (p)*	7.9	9.7	review**	review**	review**
DPS (p)	1.5	4.0			
P/E (x)*	28.3	23.0			
EV/EBITDA (x)	26.9	21.2			
Dividend yield	0.7%	1.8%			
RoE	-	20.0%			

**excludes amortisation of intangible assets*

***Forecasts under review pending expected guidance changes following recent transaction*

Source: Hardman & Co Research

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

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