October 2015 Monthly

Feature Article:

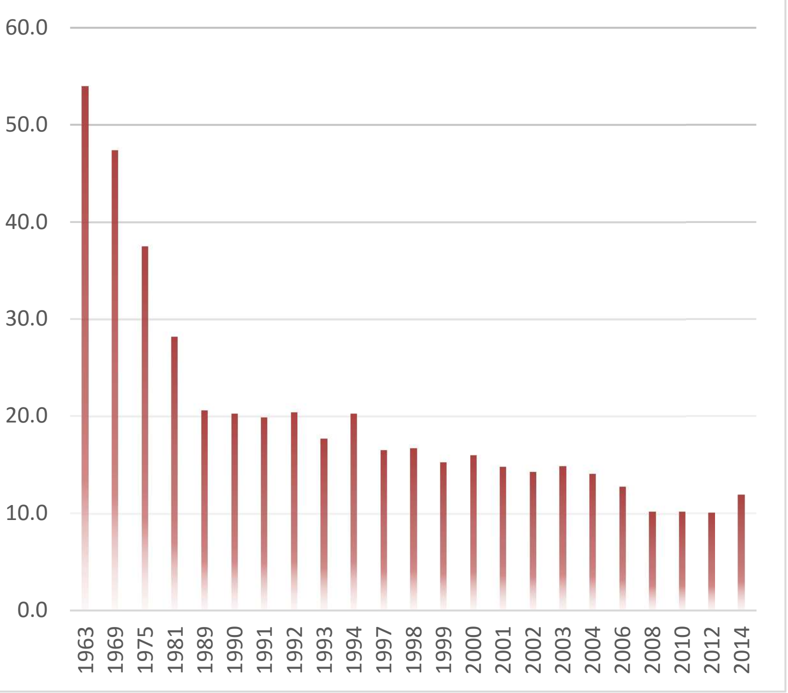
Why AIM company management ignore retail investors at their peril

By Keith Hiscock, CEO

The Office for National Statistics has just published its bi-annual report 'Ownership of quoted shares for UK domiciled companies' using 2014 data. For the first time, data for AIM companies has been split out from the whole market. It shows that retail investors form the largest cohort of investors in AIM, constituting 30.9%. We would argue that they are even more important because they provide the daily liquidity from which the share price is set; retail investors are not just the 'marginal buyers'. Unless a company has a means of addressing this audience retail investors will either not be interested in the company, or worse, might be influenced by misleading analysis and information on media such as bulletin boards and blogs.

The decline of the retail investor

Chart 1: Percentage of UK stock market owned by value by retail investors



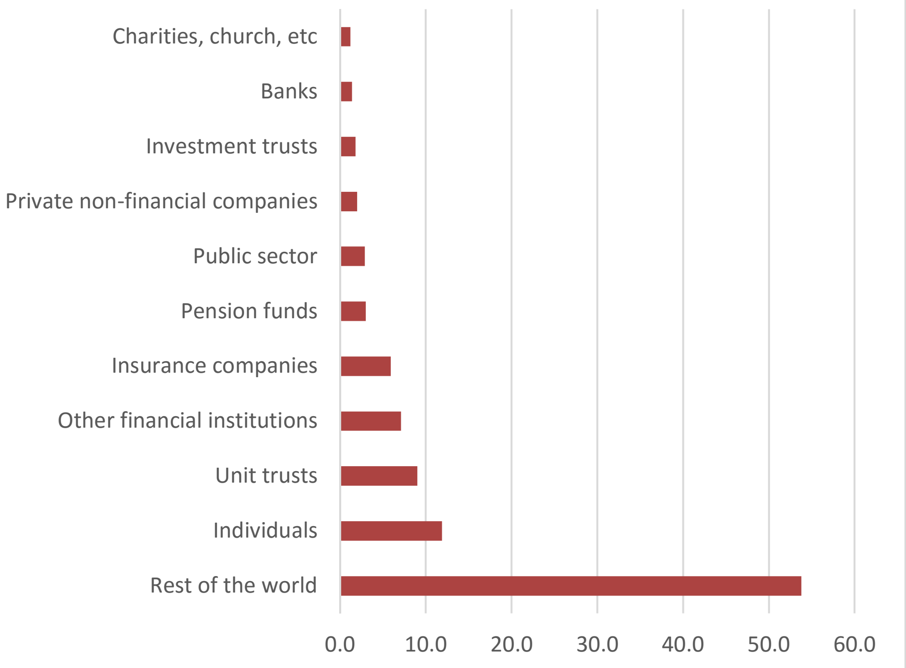
Source: ONS, Hardman & Co

Chart 1 shows the data from a survey conducted by the ONS every two years. It covers the whole quoted market for companies whose shares are UK domiciled. The story most financial service professionals would expect to hear is that the role of the individual investor in the market has declined dramatically in the last 50 years and Chart 1 seems to bear this out. Back in 1963 these investors owned 54% of all shares. From the early 1960s pension funds discovered the benefits of equities with their tendency to protect against inflation. They had a very different membership profile to today, when most private defined benefit schemes are now closed to new members and the average member is ageing fast, and hence there was more appetite for risk in the 1960s. Insurance companies and collectivised ways for individuals to hold shares, such as unit trusts, have also become more important.

Even here the perceived wisdom about the 'plucky' retail investor misses the point. Between 2012 and 2014 retail investors' ownership increased from 10.1% to 11.9% - that is 18% growth!

The changing shape of equity ownership

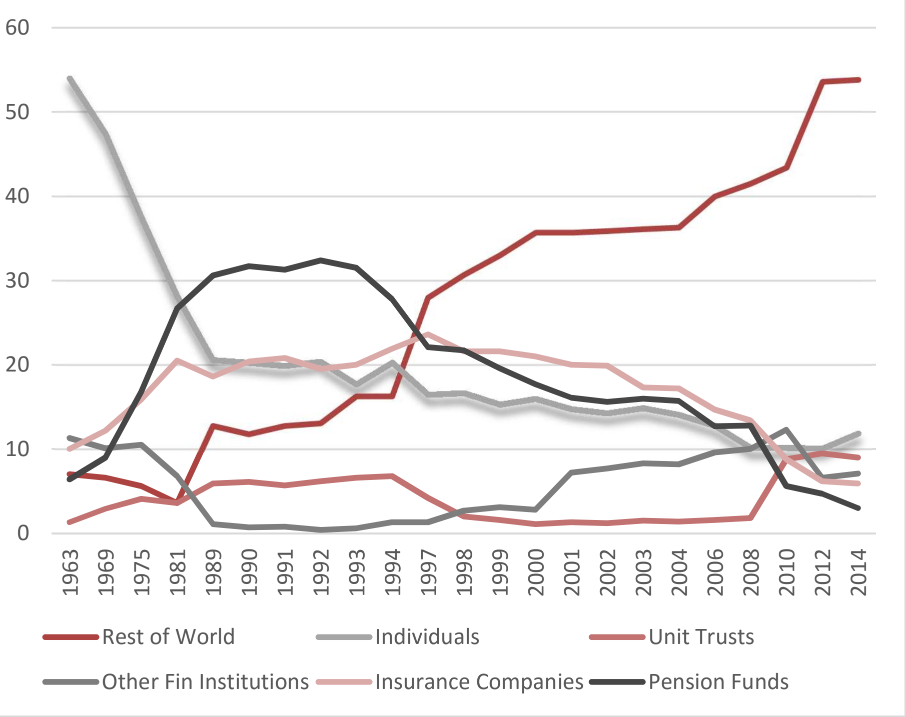
Chart 2: % Holdings of UK quoted shares by value by sector of beneficial owner at December 2014



Source: ONS, Hardman & Co

Chart 2 shows the overall position today. The retail investor ranks second only to ‘rest of the world’. The “rest of the world” category includes all types of overseas investor, including, an individual overseas investor. The scale of this category is explained by the internationalisation of the London Stock Exchange. London has become a magnet for international companies to list and, so long, as their domicile is here they are included in the data, even if they are mainly owned by international investors.

Chart 3: % Ownership of UK equities over time



Source: ONS, Hardman & Co

Chart 3 demonstrates how the influence of domestic financial institutions such as pension funds and insurance companies has declined since the 1990s reflecting both this internationalisation of London and the shift by institutions from equities. Ownership by pension funds peaked in 1990 at 32.4%, making them the most important investors in the market, but by December 2014 this had fallen back to 3%. Insurance companies' share of the market peaked in 1997 at 23.6% of the market; today they account for 5.9%.

N.B. Readers should exercise caution when considering the data between 1998 and 2008. The ONS made an assumption of the split between these categories of shares held in multiple ownership pooled nominee accounts (about 40% of the market by value), based on an analysis of share registers in 1997. A further exercise in 2010 found that these assumptions had overestimated pension fund and unit trust holdings and underestimated rest of world, individuals, unit trusts and other financial institutions.

Retail investors should be at the top of the agenda for AIM management, not an afterthought

Table 1: % Holdings of FTSE 100, AIM and other quoted companies by beneficial owner. At 31 December 2014

	FTSE 100	AIM	Other quoted
Individuals	9.5	30.6	21.0
Charities, churches, etc.	1.3	0.3	0.6
Insurance companies	5.9	2.3	6.3
Pension funds	3.0	2.7	3.0
Investment trusts	1.9	1.5	1.6
Unit trusts	8.6	10.6	10.4
Banks	1.5	1.6	1.0
Other financial institutions	7.2	4.6	6.9
Private non-financial companies	2.3	0.9	0.7
Public sector	3.6	0.0	0.0
Rest of the world	55.2	45.0	48.5
Total	**100.0**	**100.0**	**100.0**

Source: ONS

This is the first survey where the ONS has looked at AIM company ownership as a sub-set. Table 1 demonstrates just how important individual investors are to AIM companies. They own 30.6% of them. However we must introduce a caveat: the data counts directors' holdings in the individuals' pot, and on average directors own more of AIM stocks than larger companies.

Table 2: Average trade size on AIM September 2015

Ave Trade Size	No of Companies	% of all companies
More than £100k	15	1.4%
£80-100k	7	0.7%
£60-80k	5	0.5%
£40-60k	13	1.2%
£20-40k	64	6.1%
£10-20k	84	8.0%
£5-10k	147	14.0%
£0-5k	713	68.0%
Totals	1048	100.0%

Source: LSE, Hardman & Co

Table 2 considers the retail investors' impact on AIM from another perspective, trading, a 'flow' measure rather than the 'stock' approach of percentage ownership. The table uses the London Stock Exchange's data for just one month, September 2015, so provides a snapshot. It shows that for the vast bulk of AIM companies (82.1%) the average trade size was less than £10,000; this is not an unusual month. Of course even trades as small as £10,000 could be institutional investors slowly accumulating or winding down a position. But the reality is that in most cases the retail investor dominates the market, providing most of the liquidity, rather than being the 'marginal buyer' that some professionals would like to suggest. This is not that surprising when one considers that at 30th September only 438 AIM companies had a market capitalisation above £100m, a level which all but a few institutions consider an absolute minimum size before that would consider investing.

Why company managements should pay attention to retail investors

Some commentators believe that retail investors have as much right to information and engagement from companies as institutions and management has a moral duty to provide this. This article does not seek to enter the moral debate, but rather takes a practical approach.

The retail investor is becoming more important to all companies, but especially to AIM listed ones. He represents a very large part of the average AIM share register and he provides the daily liquidity which sets the price. The problem for the retail investor is finding out about companies. He cannot access institutional research because stockbrokers and investment banks are frightened of the compliance complexities if their research is made available and, secondly, because they want to use their research to generate institutional commission; how can they convince an institution to pay them 100s of thousands of pounds if Joe Public can read the same note for a small fee or even for free?

Thus, by and large, stockbrokers and investment banks ignore retail investors and convince company management that they can be forgotten. In consequence retail investors struggle to find out about companies and, even worse, are flummoxed by statements that tell them that the next set of results will be ‘in line with market expectations’ or consensus when they have no access to broker forecasts.

Conclusion

AIM managements that ignore these investors run two risks. First, their shares will be overlooked if retail investors cannot access research on the company; the result will be lower liquidity, a wider spread between bid and offer prices and a lower multiple of valuation. Secondly, if these investors are still interested the lack of access to proper research means their opinion will be determined by what they can read on media such as bulletin boards and blogs, over which management has no influence.

The message is clear. Retail investors matter. Most market professionals ignore them. This, at best, is an opportunity missed and, at worst, can mean that the company’s share price is determined by ill-informed commentators.

Hardman specialises in raising investor understanding of quoted companies through the provision of high quality research, written by experienced analysts, which is made available to all investors through a broad variety of channels.

Table of Contents

Company Highlights

- Alliance Pharma (APH) announced interim results on 9th September. No material change in forward estimates.

- Empresaria (EMR): The interim results were ahead of expectations, with adjusted EPS up 36% and all regions delivering good underlying growth. At the point of going to press, Empresaria announced the acquisition of Pharmaceutical Strategies, a recruitment firm specialising in healthcare market focusing on Pharmacy Benefit Managers for an aggregate consideration of US$12.1m. To fund this, in part, the company also announced a Placing of 4.46m shares at a minimum price of 75p per share.

- Futura Medical (FUM): Results were announced on 9th September and were in-line with market expectations. The company has made considerable progress on its key objectives for 2015, but the project to increase the shelf-life of CSD500 (erectile dysfunction) is running slightly late which impacts future royalty streams.

- Grafenia (GRA): CEO steps down.

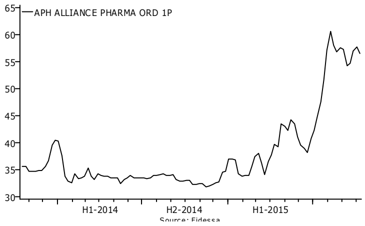
- Lombard Risk Management (LRM): Interim results are due to be announced 22nd October. There is the usual H2 bias likely, but the financial year started "well".

- Murgitroyd (MUR): Post its FY15 results, announced in September, our forward estimates are not materially changed.

- Real Good Food (RGD): AGM was held on 23rd September.

- Sanderson (SND): A trading update is anticipated within a month.

- Verona Pharma (VRP): Verona published interim results (8th Sept) and also key clinical trial data (29th September). Stages 1&2 proved that RPL554 was well tolerated and safe in healthy human volunteers and that the new formulation could be used at much higher doses. Stage 3 has repeated these findings in COPD patients with moderate disease, with the added benefit of an improvement in lung function.



Price (p)	57.0
Mkt cap (£m)	132.5
Shares (m)	232.4
Sector	Pharma and Biotech
Market	London AIM
Broker	Numis Securities
Website	www.alliancepharma.co.uk

Description: Alliance Pharma acquires, markets and distributes mature pharmaceutical brands, generating relatively predictable cash flow.

Alliance Pharma (APH)

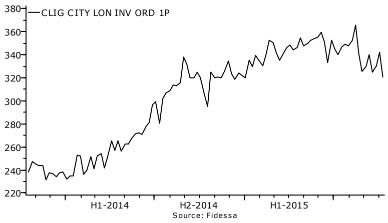
A specialty pharmaceutical company based on a 'buy-and-build' model. Developed since 1998 through a series of 27 deals, it has built up a portfolio in excess of 60 products. APH is profitable, cash generative, has low gearing and progressive dividend policy.

- **Interim results:** released on 9th September were in-line, but the profit mix was different; with higher gross margins used to increase promotional spend. Lower free cashflow was attributed to the strategic decision to build inventory which should normalise in 2016. Clear evidence of core product growth and stable margins existed. We made minimal changes to forecasts: unchanged in 2015 but 4% lower in 2016 (3.6p of earnings vs. 3.8p).
- **In-licensed product:** announced that it had in-licenced Diclectin for the treatment of nausea and vomiting in pregnancy (NVP) for the UK market from Duchesnay Inc of Canada. There is currently no licensed NVP treatment which affects 70-80% of the c.0.9m pregnant women in the UK. The UK addressable market is c. 0.3-0.6m women (those with moderate to severe NVP) and could be worth as much as £60m in our opinion. Diclectin could ultimately generate sales of £15m if it were to achieve a 25% share of the market.
- **Outlook:** These results marked a turning point for the company in respect of visibility to growth. Upside to our forecasts exists, in our view, but is dependent on 3 factors: scale of ImmuCyst's re-introduction in 4Q, MacuShield's international exploitation and timing of Diclectin approval and its subsequent rate of adoption (currently not in forecasts).
- **Risks:** Increased generic competition to Nu-Seals is factored into our forecasts, although the Irish regulator has yet to determine if it is substitutable. ImmuCyst resupply in 4Q '15 but we are uncertain of Sanofi's production capacity ramp.
- **Investment summary:** Trading on FY16 prospective PE of 16.1x with a 2014-2018 EPS CAGR estimate of 8%, EV/EBITDA of 12.4x with a FCF yield of 7.1%. The dividend yield is 1.9% and 3.1x covered.

Dec Year End	2014	2015E	2016E	2017E	2018E
Sales (£m)	43.5	47.6	49.5	52.5	55.5
EBITDA (£m)	12.5	13.7	14.1	15.2	16.2
Operating profit (£m)	11.2	12.6	12.8	13.7	14.7
PBT (£m)	10.2	11.6	11.9	13.1	14.3
EPS (p)	3.2	3.4	3.6	3.9	4.3
DPS (p)	1.0	1.1	1.2	1.3	1.5
Net (debt)/cash (£m)	(21.1)	(24.9)	(21.2)	(15.6)	(7.4)
Net debt/EBITDA (x)	1.7	1.8	1.5	1.0	0.5
P/E (x)	17.6	16.8	15.8	14.6	13.3
EV/Sales (x)	2.7	2.5	2.4	2.1	1.9
EV/EBITDA (x)	9.3	8.8	8.3	7.3	6.3
FCF Yield (%)	11.0	5.8	11.4	11.6	12.7
Dividend Yield (%)	1.8	1.9	2.1	2.3	2.6

Analysts
Mark Brewer 020 7148 1434
mb@hardmanandco.com
Martin Hall 020 7148 1433
mh@hardmanandco.com

City of London Investment Group (CLIG)



Price (p)	**333.8**
Mkt cap (£m)	89.8
Shares (m)	26.9
Sector	Financial Services
Market	London Full List
Broker	Canaccord Genuity
Website	www.citlon.co.uk

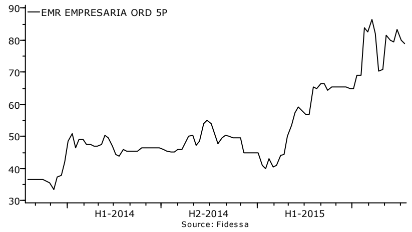
Description: City of London is an investment manager specialising in using closed end funds to invest in emerging markets.

City of London issued a trading statement this morning about their first quarter performance. Funds under management were $3.6bn as of the end of September. This is down on the $4.2bn as of the end of June, but slightly ahead of the last figure given with the annual results of $3.5bn. Profitability in the first quarter was £1.2m after tax. As well as weak markets weighing on fees, they have had an adverse effect on the company's seed investment holdings, which has led to an unrealised loss of £0.2m.

- **Pipeline:** The company indicates that the pipeline of potential mandates is still good, with $750m across all its main product areas. It is expected that this will give net gains of at least $250m over the next 6-9 months. We'd suggest in the current market environment timing will inevitably have some uncertainty.
- **Costs:** Overall costs overall were in line with expectations at £0.8m per month before profit share. City of London has shown in the past it can cut the fixed cost base w hen markets are challenging, and has indicated that it is about to do so again.
- **Valuation:** The shares have gone ex-dividend recently. The prospective P/E of 15.0 times is a discount to the peer group. The yield of 7.2% is very attractive and should at the very least provide support for the shares in the current volatile markets.
- **Risks:** To date City of London has not experienced the sorts of outflows that some other emerging market fund managers have, aided by its good performance and strong client servicing. Further EM volatility may increase that risk.
- **Investment summary:** City of London has continued to show robust performance in challenging market conditions. The valuation remains reasonable. Without a market recovery the dividend may be uncovered in 2016, but with over £10m of cash the company can easily cover the £0.4m gap that current market levels imply.

Jun Year End	2013	2014	2015E	2016E	2017E
Sales (£m)	29.4	24.2	25.4	22.8	24.4
EBITDA (£m)	8.6	7.2	8.9	8.4	9.5
Operating Profit (£m)	8.4	7.0	8.7	8.2	9.3
PBT (£m)	8.9	7.2	8.9	8.1	9.4
EPS (p)	24.9	20.7	26.4	22.2	27.9
DPS (p)	24.0	24.0	24.0	24.0	24.0
Net (debt)/ Cash (£m)	10.1	10.2	10.2	11.5	12.5
Net cash/EBITDA (x)	1.2	1.4	1.1	1.4	1.3
P/E (x)	13.4	16.1	12.6	15.0	12.0
EV/Sales (x)	2.7	3.3	3.1	3.4	3.2
EV/EBITDA (x)	9.3	11.1	8.9	9.3	8.1
FCF Yield (%)	12.8	7.1	7.7	8.1	7.8
Dividend Yield (%)	7.2	7.2	7.2	7.2	7.2

Analyst
Brian Moretta 020 7929 3399
bm@hardmanandco.com



Price (p)	**85.5**
Mkt cap (£m)	39.2
Shares (m)	45.8
Sector	Recruitment
Market	London AIM
Broker	Shore Cap
Website	www.empresaria.com

Description: Multi-brand international recruitment agency, with 100 offices in 19 countries, with focus on specialist segments of the market.

Empresaria (EMR)

Market's cyclical fears: Global stockmarkets have tanked in the last week, as concerns **Empresaria's share price had a strong run in September, boosted by the interim results which confirmed that the hard work of recent years in simplifying the business and building the platform for growth is working. Adjusted EPS was up an excellent 36% with all regions delivering good underlying growth. The share price performance is notable in that the backdrop is one of volatility and global growth fears. The company continues to be valued at a significant discount to the peer group and we would expect this discount to narrow, assuming Empresaria continues to deliver as expected.**

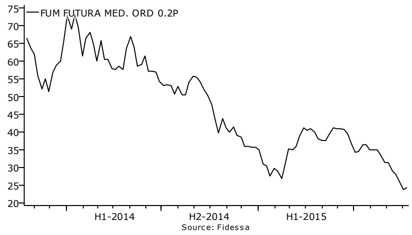
- **Market's cyclical fears:** Global stockmarkets have been weak in the last two months, as concerns mount over China's economic prospects and hence global growth. The Fed's failure to put up rates has fuelled the anxiety, as markets fret that the US economy might not be able to support 25bps of higher rates. Yet economic growth in the US looks strong, and employment vacancies are running at historically low levels. A similar picture is presented in the UK, while Europe is recovering. We think the fears are probably overdone in the case of Empresaria.
- **Sector:** In spite of the global growth fears and weak markets, the UK personnel sector has basically been flat in September (as we go to press), although it has had ups and downs. We attribute this as likely down to a strong UK and concerns about overseas operations. Empresaria has been a clear outperformer, up nearly 18% as we write.
- **Interims:** Empresaria reported a strong first half, which beat our expectations; revenue increased by 3%, net fee income by 16%, adjusted operating profit by 35% and adjusted pbt by 44%, all at constant currency. In reported terms, revenue growth was -2%, net fee income was up 12%, adjusted operating profit was up 25% and adjusted eps was up 36%. The shares have had a good run on the back of these figures but remain below the peer group valuation.

Dec Year End	2012	2013	2014	2015E	2016E
Sales (£m)	194.3	194.4	187.9	187.3	194.3
EBITDA (£m)	6.3	6.9	7.3	8.6	9.4
Operating profit (£m)	5.4	6.0	6.6	7.6	8.4
Underlying PBT (£m)	4.6	5.4	6.1	7.2	7.9
EPS (p)	5.0	6.2	8.0	9.0	9.7
DPS (p)	0.4	0.4	0.7	0.7	0.7
Net debt/EBITDA (x)	3.3	3.6	1.8	1.2	1.1
P/E (x)	17.1	13.8	10.7	9.5	8.8
EV/NFI (x)	5.7	5.2	5.1	5.7	0.9
EV/EBITDA (x)	5.7	5.2	5.1	5.9	0.9
FCF Yield (%)	(2.0)	9.2	12.0	10.7	10.7
Dividend Yield (%)	0.5	0.5	0.8	0.8	0.8

Analysts

Mark Brewer 020 7148 1434
mb@hardmanandco.com

Martin Hall 020 7148 1433
mh@hardmanandco.com



Futura Medical

Price (p)	**23.1**
Mkt cap (£m)	22.9
Shares (m)	99.0
Sector	Pharma and Biotech
Market	London AIM
Broker	N+1 Singer
Website	www.futuramedical.com

Description: Development of drugs and medical devices and their commercial exploitation; products includes condoms, erectile dysfunction, enhanced sexual control, pain relief and delivery technology.

Futura Medical has advanced transdermal technology which can be incorporated into formulations of well characterised drugs to improve performance and extend their uses. 2015 was expected to be a busy year for the company and interim results show that management is delivering on expectations Despite that, market reaction to the headline data from the pain portfolio trial was disappointing, as this reduced risk and provided a catalyst to value appreciation. Further data analysis has demonstrated that neither topical nor oral formulations of commercial comparator products outperformed the equivalent FUM NSAID.

- **Interims:** Underlying EBIT losses were £0.2m higher than expected at -£3.0m. Although SG&A was £0.2m lower than forecast, this was not enough to offset the rise in R&D spend which was £0.4m higher than expected at £2.5m. FY 2015 forecast cut by £0.7m, but only because royalties have shifted into 2016.

- **R&D spend:** Key event in 1H 2015 was the commencement and completion of the pain relief clinical trial, which proved that FUM's products were 'not inferior' to their equivalent marketed competitor and cost £0.75m. This was the major factor behind the planned 132% increase in R&D spend.

- **Valuation:** FUM is now forecast to reach break-even and become cashflow positive during the course of 2018. Our risk-adjusted DCF remains at 126p per share. Regulatory submission for a revised version of CSD500 is due towards the end of 2015. Any licensing deal would provide further upside potential.

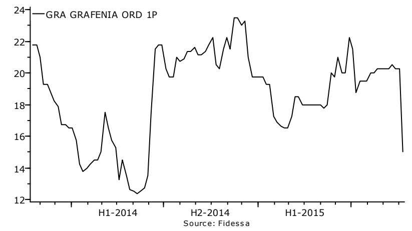
- **Risks:** Clinical trials always carry risk, but with the primary end-point being 'non-inferiority', these risks were minimised. Greatest risk is the timing of licensing deals and commercial, where any delay impacts the time to cashflow breakeven and profitability.

- **Investment summary:** Commercialisation of its first three products is key over the next 18 months, driving cashflow, and providing potential for valuation uplift. Pain trial results reduced the risk, increased the DCF valuation to 126p, and improved the probability of finding an attractive licensing partner from pharmaceutical majors.

Dec Year End (£000)	2013	2014	2015E	2016E	2017E
Sales	371	0	0	300	345
Royalties	0	44	45	1,000	1,600
Underlying EBIT	-2,390	-3,350	-4,539	-4,597	-4,339
Reported EBIT	-2,532	-3,527	-4,639	-4,717	-4,479
Underlying PTP	-2,381	-3,302	-4,502	-4,510	-4,345
Statutory PTP	-2,522	-3,479	-4,602	-4,630	-4,484
Underlying EPS (p)	-2.7	-3.2	-4.0	-3.8	-3.4
Statutory EPS (p)	-2.8	-3.4	-3.7	-3.9	-3.7
Net (debt)/cash	991	9,492	5,410	1,520	-1,994
Shares issued	181	11,555	100	100	100
P/E (x)	-18.8	-15.4	-12.4	-13.2	-14.8

Analysts

Mark Brewer	020 7148 1434
	mb@hardmanandco.com
Martin Hall	020 7148 1433
	mh@hardmanandco.com



Price (p)	**15.1**
Mkt cap (£m)	7.1
Shares (m)	47.1
Sector	Support Service
Market	London AIM
Broker	N + 1 Singer
Website	www.grafenia.com

Description: Printing for SMEs via franchise offices and online. 63% UK, 37% overseas primarily Holland.

Grafenia (GRA)

Grafenia has sold its Dutch subsidiary, for €2.35m, (bought in 2010 for €2m). The rationale is customer focus. The Dutch operation has been cash generative and profitable. However, the fall in the € does cause transactional issues At the same time, the CEO has stepped down.

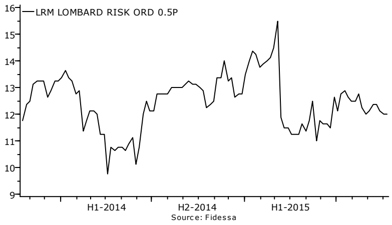
Grafenia's strong cash flow is applied to dividends and to internal growth investment. The sale proceeds will be applied to supporting the Group's partner networks, its online trade site Marqetspace and its cross media (web-design) offerings. Nettl (rolling out the development of the largest network of web studios in the country) and the new Brambl, address graphic designers' web-creative needs. The consistent message is that Grafenia attracts and retains graphic professional partners, helping them enter new markets by extending the range of products they can sell. Further, new products are being launched to keep the momentum up, for example a new ink-on-fabric range a growing market.

In order to focus this message to partners (franchisees) and thus grow Grafenia together, Peter Gunning has been appointed as acting CEO. Nettle now being established in its roll-out phase, is an appropriate time for change. Peter has been the Group's CTO for the past five years and, prior to that, the Group's Operations Director with responsibility for Operations, Marketing and systems development. This means he is well known and respected, being responsible for the development of brands and software interacting with franchisees and clients. Gavin Cockerill is the new Chief Operating Officer.

Trading softened during July and August, although September was in line with internal budgets. As previously stated, the Board anticipates the current year's results will be second half weighted and second half projections remain. Taking into account € weakness H1 profits will be modest. The newer Marqetspace continues to progress, with September comfortably exceeding the targeted £2m annualised monthly run rate. Nettl is growing but slightly behind expectations. We are suspending our estimates but would look to reinstate before the period end.

March Year End	2012	2013	2014	2015	2016E
Sales (£m)	21.8	20.7	19.4	17.0	
EBITDA (£m)	3.4	2.6	2.6	2.5	
Operating profit (£m)	1.3	0.9	0.8	0.9	
PBT Adj. (£m)	1.3	1.1	0.8	0.9	
EPS Adj. (p)	2.3	2.1	1.8	1.8	No
DPS (p)	2.6	2.6	1.3	1.5	Estimates
Net (debt)/cash	1.8	1.4	1.4	1.3	At Present
Net debt/EBITDA (x)	cash	cash	cash	cash	
P/E (x)	6.6	7.2	8.4	8.4	
EV/Sales (x)	0.2	0.3	0.3	0.3	
EV/EBITDA (x)	1.6	2.2	2.2	2.3	
FCF Yield (%)	25.3	11.3	12.7	12.7	
Dividend Yield (%)	16.9	17.2	8.6	9.9	

Analyst
Mike Foster 020 7148 0545
mf@hardmanandco.com



Price (p)	**11.9**
Mkt cap (£m)	31.2
Shares (m)	263.4
Sector	Software & Services
Market	London AIM
Broker	Charles Stanley
Website	www.lombardrisk.com

Description: Lombard Risk provides financial software to banking and asset management clients. Solutions are focused on collatoral and risk management, and regulatory and transaction reporting.

Lombard Risk Management (LRM)

We anticipate the next results announcement will be delivered promptly post the interim period end. The announcement is set for 22nd October.

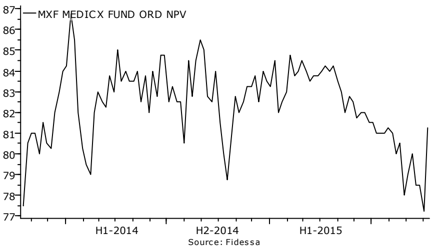
The most recent trading update, the AGM on 9th July, "The Company has made a positive start to the new financial year with trading in the first three months ahead of the same time last year. The Board look forward to the future with increasing confidence." This remains the case, with circa half the income being recurring income. There is an element of significant payments made for discrete projects which can lead to timing issues as they did with 4Q 2015. Additionally, Lombard Risk does usually display revenue bias towards H2.

We anticipate re-instigating forward estimates shortly.

March Year End	2012	2013	2014	2015	2016E
Sales (£m)	12.8	16.8	20.4	21.5	
EBITDA (£m)	3.0	5.3	6.0	4.4	
Operating profit (£m)	2.5	4.0	4.5	2.3	
PBT (£m)	2.5	3.9	4.4	2.3	
EPS (p)	1.1	1.7	2.1	0.9	No
DPS (p)	0.055	0.065	0.075	0.080	Estimates
Net (debt)/cash (£m)	(2.4)	0.2	2.3	2.2	At Present
Net debt/EBITDA (x)	nm	(0.0)	(0.4)	(0.5)	
P/E (x)	11.0	7.0	5.6	13.2	
EV/Sales (x)	2.6	1.8	1.4	1.3	
EV/EBITDA (x)	11.2	5.9	4.8	6.6	
FCF Yield (%)	(5.4)	4.2	(1.6)	0.3	
Dividend Yield (%)	0.5	0.5	0.6	0.7	

Analyst
Mike Foster 020 7148 0545
mf@hardmanandco.com

hardman&co



Price (p)	**81.5**
Mkt cap (£m)	296.2
Shares (m)	363.4
Sector	Real Estate
Market	London Full List
Broker	Canaccord Genuity
Website	www.medicxfund.com

Description: Investing and holding modern UK medical property (eg. doctors' surgeries)

MedicX Fund (MXF)

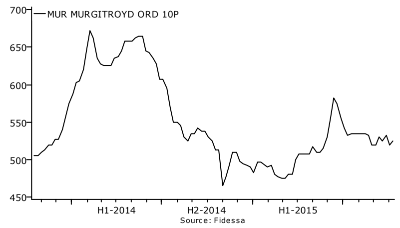
MedicX is both a yield play and is exposed to asset movements' impact on NAV. Last Friday an update was given coinciding with a site visit. MedicX Fund has to date purchased one asset in Eire. This is an important development for the medium term fund prospects. The valuations on medical properties are seeing yields tightening.

MXF is fulfilling its purpose – providing a progressive dividend driven by secure real estate assets and a safe balance sheet. In a bull market for UK real estate recently, the top share price performers have been developers or more operationally geared stories. In a no-risk world, MedicX's high yield - low risk only attracts because of the yield. But now, increasingly as the real estate cycle matures, MedicX's 'low risk' side of the equation attracts greatly. After all, the US is 72 months post the recession low. Normal cycles last only 40 months. Time for some safety – with a growing dividend. There is scope for a re-rating both of UK primary medical assets and of MedicX's share price rating vs NAV. In recent months there is evidence of the yield basis of primary medical properties tightening 10-20 bps and with more to come. Properties are valued at prices reflecting transactions, clearly. But there is a strong logic behind portfolios of assets being worth a premium as long as they are efficiently managed by experts in this very distinctive asset class.

Just as important as the 'big picture' macro thesis is the delivery 'on the ground'. In this regards the yields available in Eire (in €) are noteworthy and will assist growth in EPS as FY16 progresses and particularly into the following year.

Sept Year End	2012	2013	2014	2015E	2016E
Income (£m)	16.6	25.5	29.5	33.9	37.8
Operating profit (£m)	12.2	20.2	21.8	26.7	29.8
Interest (£m)	(7.1)	(11.0)	(13.0)	(13.9)	(15.8)
Declared profit	2.6	9.7	20.4	25.8	24.0
PBT Adj.(i.e. pre revaln) (£n	5.0	9.8	10.7	13.3	14.5
EPS Reported (p)	1.1	3.6	5.9	7.0	6.2
EPS Adj. (p)	2.1	3.6	3.1	3.7	3.9
DPS (p)	5.6	5.7	5.8	5.9	6.0
Property acquisitions	145.2	95.0	65.0	35.0	70.0
Net (debt)/cash (£m)	(190.0)	(246.7)	(255.2)	(288.4)	(362.9)
Dividend Yield (%)	6.9	7.0	7.1	7.2	7.4
Price/NAV	1.28	1.29	1.24	1.19	1.17
NAV (p)	63.5	63.1	65.8	68.4	69.9

Analyst
Mike Foster 020 7148 0545
mf@hardmanandco.com



Price (p)	532.3
Mkt cap (£m)	47.5
Shares (m)	8.9
Sector	Support Services
Market	London AIM
Broker	N+1 Singer
Website	www.murgitroyd.com

Description: Murgitroyd is a leading firm of patent attorneys. It is based in Glasgow, with a network of offices around the UK, Europe and the US.

Murgitroyd (MUR)

Results were announced in September. Our numbers for FY16E are not materially changed bar an upgrade to dividend expectations. Revenues rose 4%, as anticipated. The USA now represents over 40% of the Group total. USA grew 20% last year. The strategy is sustained medium term growth. This is reflected by a good, progressive dividend.

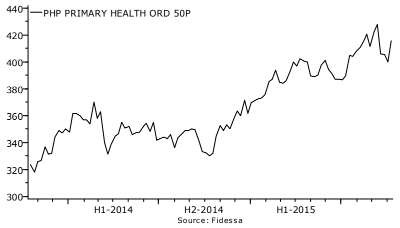
We anticipate more moderate growth in the USA in the current year but continue to assume a modest reduction in UK / European revenue. Murgitroyd has fifteen offices in eight countries. As Murgitroyd stated: "Revenue from UK clients peaked at £19.5m in 2011. The return to growth in this market, and in Europe more generally, is an area of strategic focus for the Group in the medium term."

Within the global range of markets, we consider Murgitroyd is well placed geographically and also in the ability it has to continually share efficiency improvements accruing from ongoing investment in systems and processes with its clients. Gross margins fell to 55.4% (2014: 57.6%). This continues to reflect the ongoing changes in our client and sales mix highlighted previously, as well as the continuing price pressure in the market. Administrative expenses fell very slightly: employee numbers have fallen to 234 from a peak of 260. At 31 May 2015 the Group employed 61 qualified attorneys and generated £39.8m revenue in the year to that date. This compares with a qualified attorney complement at end May 2009 of 70. In that financial year, Group sales were £10m lower at £29.4m.

Murgitroyd has shown itself well able to take care of itself in such an environment.

May Year End	2012	2013	2014	2015	2016E
Sales (£m)	35.7	36.0	38.4	39.8	41.0
EBITDA (£m)	4.7	4.8	4.4	4.5	4.9
Operating profit (£m)	4.5	4.6	4.1	4.2	4.4
PBT (£m)	4.4	4.5	4.1	4.2	4.4
EPS (p)	36.1	37.0	32.5	34.0	35.0
DPS (p)	12.0	12.5	13.3	14.8	16.0
Net (debt)/cash (£m)	(4.6)	(3.2)	(0.4)	0.7	1.0
Net debt/EBITDA (x)	1.0	0.7	0.1	(0.2)	(0.2)
P/E (x)	14.7	14.4	16.4	15.7	15.2
EV/Sales (x)	1.5	1.4	1.2	1.2	1.1
EV/EBITDA (x)	11.0	10.5	10.9	10.4	9.5
FCF Yield (%)	3.6	4.7	4.2	4.8	5.3
Dividend Yield (%)	2.3	2.3	2.5	2.8	3.0

Analyst
Mike Foster 020 7148 0545
mf@hardmanandco.com



Price (p)	**423.3**
Mkt cap (£m)	471.1
Shares (m)	111.3
Sector	Real Estate
Market	London Full List
Broker	Numis Securities/Peel Hunt
Website	www.phpgroup.co.uk

Description: PHP lets out GP surgeries to GP partnerships on long term leases. The rent GPs pay is reimbursed by the public sector.

Primary Health Properties (PHP)

H1 results led to modest upgrades in EPS estimates and NAV. The market is seeing as yet modest but accelerating asset price rises in this asset class. As a result of tightening valuation ratings, a property revaluation surplus of £23.9m was achieved in H1 2015. The dividend is progressive and with a cover of 89% for H1, we see cover of just over 100% H2 and 104% next year. There have been 19 years' unbroken dividend increases paid since founding.

PHP grows its portfolio to generate dividend growth, for minimal risk. In this regard the upwards-only term of leases allied to an efficient structure are key. PHP's EPRA Cost Ratio, the admin costs as a proportion of net rental income, fell to 11.6% H1 2015 (vs 12.7%). This is a strong performance within the sector

Growth is a key strategic aspect of PHP, which has trebled portfolio size in five years. PHP's reputation and track record assists when buying both standing assets and new stock. In 2015, £40m purchases are anticipated, with £80m 2016. Loan to value ratios currently stand at 63.2%.

We are encouraged to see operational and financing efficiency improvements slightly ahead of expectations. Cost of debt stands at 4.9% and falling. This is a secure and growing real estate investment.

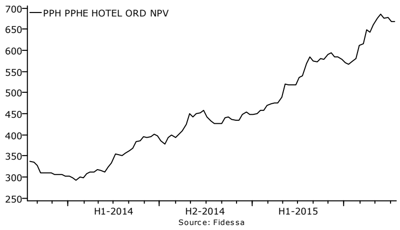
We calculate that over the past five years, PHP's total shareholder return compound annual growth rate has been over 13%. Total Shareholder Return in H1 was 8.5%. Investors in this REIT are exposed to an asset class which yields well above cost of funds, with rent being upwards only and AAA covenant. There is some exposure to future interest rate trends – closely monitored.

Dec Year End	2012	2013	2014	2015E	2016E
Income (£m)	33.1	42.0	60.0	62.9	67.5
Operating profit (£m)	27.9	35.5	52.5	55.3	59.8
Interest (£m)	(21.8)	(26.9)	(35.5)	(34.1)	(35.5)
Declared profit	1.1	20.2	36.9	49.9	34.3
PBT Adj.(i.e. pre revaln) (£n	7.3	9.5	18.2	21.2	24.3
EPS Reported (p)	1.6	22.7	33.2	44.8	30.1
EPS Adj. (p)	10.0	10.8	16.4	19.0	21.4
DPS (p)	18.5	19.0	19.5	20.0	20.5
Property acquisitions	98.0	291.0	75.0	40.0	80.0
Net (debt)/cash (£m)	(378.0)	(587.0)	(655.0)	696.0	756.0
Dividend Yield (%)	4.4	4.5	4.6	4.7	4.8
Price/NAV	1.80	1.54	1.52	1.41	1.35
NAV (p)	235.0	274.0	278.0	300.0	314.0

Analyst
Mike Foster 020 7148 0545
mf@hardmanandco.com

hardman&co

PPHE Hotel Group (PPH)



Price (p)	**667.0**
Mkt cap (£m)	277.0
Shares (m)	41.5
Sector	Travel & leisure
Market	London (Main)
Broker	finncap & Oriel
Website	www.pphe.com

Description: Owns, co-owns, leases, franchises and manages a portfolio of 4* hotels in Europe under the Park Plaza brand.

PPHE, the owner and operator of Park Plaza hotels in Europe, in August reported excellent interim results and its key projects are on time and within budget, with openings scheduled for 2016. The share price has been flat in the last month, against a sector down 3% and a turbulent market. PPHE continues to trade at significant discounts to the real NAV and to its peers.

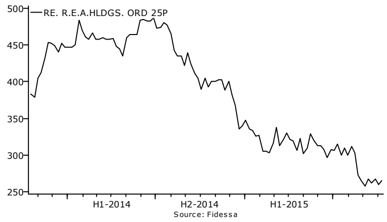
- **Positive Interims:** Interim results easily beat expectations: revenues of €141m surpassed our €134m estimate and EBITDA of €48.4m was similarly better than our €45.8m estimate. Revenue growth of 12% yoy was boosted by the weakness of the Euro (translating £ sales).

- **Investing for the future:** Over the next two years, PPHE plans to add 1,000+ rooms to take the portfolio to c10,000 rooms by 2019, and to refurbish a significant element of its city centre assets. This programme should create a significant uplift in the value of the asset base, whose current value is not reflected in the share price.

- **Crystallising Value:** The company alluded in the results to measures to crystallise shareholder value: *"The Company is continuing to consider the release of part of the value of its hotel assets, whilst retaining operational control."* We see this as potentially positive for the shares, as the current price does not reflect even the value of the current portfolio, and the c€200m development programme will add significant incremental value.

- **Valuation:** The stock is trading at c.end-2015 book value, which does not reflect the real value of the assets. Although the investment case continues to gain traction, the share trades on a PE of c.12x for FY15, a significant discount to asset value, and offers a 3%+ dividend yield which is well covered and should continue to grow.

Dec Year End	2012	2013	2014	2015E	2016E
Sales (€m)	242.1	244.8	270.4	296.8	309.8
EBITDA (€m)	65.1	85.6	82.6	94.8	106.3
Operating profit (€m)	55.1	56.2	67.5	69.5	73.6
PBT (Cont) (€m)	18.4	27.3	41.6	31.1	33.7
EPS (c)	44.0	65.0	98.0	74.0	80.0
DPS (p)	12.0	14.0	19.0	20.9	23.0
Net (debt)/cash (€m)	-	(483.0)	(483.1)	(575.4)	(597.7)
Net debt/EBITDA (x)	-	5.6	5.8	6.1	5.6
P/E (x)	20.9	14.2	9.4	12.4	11.5
EV/Sales (x)	1.6	3.5	3.2	3.2	3.1
EV/EBITDA (x)	5.9	10.1	10.5	9.9	9.1
FCF Yield (%)	11.1%	10.9%	9.9%	11.0%	11.0%
Dividend Yield (%)	1.8	2.1	2.8	3.1	3.4



Price (p)	**265.0**
Mkt cap (£m)	92.6
Shares (m)	35.0
Sector	Food Producers
Market	London Main List
Broker	Mirabaud Securities
Website	www.rea.co.uk

Description: R.E.A. is engaged in the operation and further development of a single site palm oil plantation in East Kalimantan, Indonesia. It has also acquired rights in respect of two small coal mining concessions, also in East Kalimantan

R.E.A. Holdings (RE.)

August saw the palm oil price hit its lowest point since 2009 at $480/mt CIF, amid concerns over demand from the two largest consumer countries - China and India, a healthy production outlook, along with strong supplies in competing vegetable oils, notably soya oil. One positive factor for the profit and loss accounts of the Asian producers was the weakness in the Malaysian Ringgit and the Indonesian Rupiah - down 20.2% and 15.7% respectively since January this year.

However the CPO price has rebounded to $555/mt CIF at the time of writing. Drier weather due to the El Nino weather phenomenon has already been reported affecting many plantations in Malaysian. According to the Australian Bureau of Meteorology, this El Nino cycle will peak around the end of 2015 and is expected to be the strongest such event in nearly 20 years.

For all the palm oil producers a weak commodity price has negative implications for cash flow. With a little under 40,000 ha planted, REA has 20,000 ha still for planting to take its estates to circa 60,000 ha planted on completion. With cash squeezed by reduced revenue flows, palm oil producers still in a development phase, like REA, will need to juggle competing claims for cash. The recently released half yearly report revealed that capex of $12.9m and dividend payments of $6.3m were funded by net cash from operations of $2.6m and cash depletion of $16.6m. This recognition has impacted sentiment towards both the ordinary shares and the Preference shares.

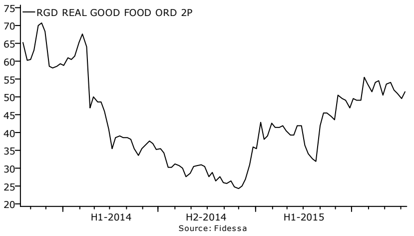
Following the 1H15 results, we adjusted our forecasts for the company noting that the average selling price for its CPO in the six months to end June 2015 was $542 mt (FOB Samarinda), some $169/mt lower than the average for the previous first half year. The commodity price achieved by producers like REA may yet be lower in the second half of the year on the imposition of a new $50/mt levy on palm oil by the Indonesian authorities (which took effect in July) to fund a programme of subsidies at the pumps for biodiesel. More negative economic news out of China could also further depress the commodity price.

Dec Year End	2012	2013	2014	2015E	2016E
Sales ($m)	124.6	110.5	125.9		
EBITDA ($m)	45.0	38.8	42.7		
Operating profit ($m)	37.8	28.1	32.1		
PBT ($m)	30.6	25.2	23.7		
EPS (c)	33.9	15.8	40.3	Estimates	Estimates
DPS (p)	7.00	7.25	7.75	Under	Under
Net (debt)/cash ($m)	(140.5)	(164.4)	(179.2)	Review	Review
Net debt/EBITDA (x)	3.1	4.2	4.2		
P/E (x)	13.8	29.5	11.6		
Dividend Yield (%)	2.3	2.4	2.5		
EBITDA Margin (%)	36.2	35.1	33.9		
Planted Hectare (ha)	36,794	34,062	34,614	37,614	41,614
EV/Planted hectare* ($/ha)	11,306.4	12,916.3	13,137.9	-	-

** EV includes market cap of preference shares*

Analyst
Yingheng Chen 020 7148 0547
yc@hardmanandco.com

Real Good Food (RGD)



Price (p)	**53.0**
Mkt cap (£m)	36.9
Shares (m)	69.6
Sector	Food Producers
Market	London AIM
Broker	Shore Cap
Website	www.realgoodfoodplc.com

Description: Specialist food manufacturing.

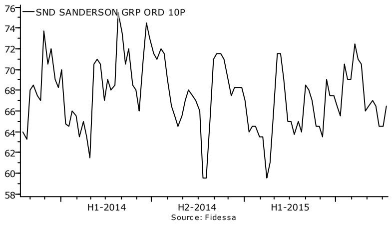
Current trading is encouraging. Group strategy is dedicated to pursuit of customer sectors which offer a target-rich environment in both premium pricing and growth. Stemming from this, FY17 estimates show strong profit growth at +40% for the continuing businesses. Real Good Food has created real value in its Napier Brown business – disposed of this year. The Napier Brown story is an important one in order to understand Real Good Food's philosophy of creating shareholder value – and it worked.

Real Good Food's balance sheet is now net cash positive and we estimate dividends for FY17 with the possibility of acquisitions being a part of the strategy too.

The disposal price (including release of working capital) was 10.2x peak operating profit for a business which at the time was loss-making. This reflects how Real Good Food built Napier Brown into a strategically attractive business. It is the only independent distributor of refined sugar in Europe of any size, which makes it attractive both to customers and to Tereos' (the world's fifth largest sugar group) ambitions to expand volume.

March Year End	2012	2013	2014	2015	2016E
Sales	305.5	265.7	272.6	232.9	111.0
EBITDA	8.6	10.0	2.7	1.0	7.9
Operating profit	6.2	8.0	0.5	(1.6)	5.7
PBT	4.5	6.5	(1.2)	(3.2)	5.2
EPS (p)	5.3	7.0	(0.4)	(4.1)	5.1
DPS (p)	-	-	-	-	-
Net (debt)/cash (£m)	(28.7)	(25.0)	(31.3)	(30.1)	2.0
Net debt/EBITDA (x)	3.3	2.5	11.6	30.1	(0.3)
P/E (x)	10.0	7.6	n.a.	n.a.	10.4
EV/Sales (x)	0.2	0.2	0.3	0.3	0.3
EV/EBITDA (x)	7.6	6.2	25.3	76.2	4.4
FCF Yield (%)	-16.5%	3.0%	-16.8%	-10.8%	18.2%
Dividend Yield (%)	-	-	-	-	-

Analyst
Mike Foster 020 7148 0545
mf@hardmanandco.com



Price (p)	**64.0**
Mkt cap (£m)	34.6
Shares (m)	54.1
Sector	Software & Computer Services
Market	London AIM
Broker	Charles Stanley
Website	www.sanderson.com

Description: Sanderson Group PLC is a provider of software solutions and IT services, primarily to the multichannel retail and manufacturing services.

Sanderson (SND)

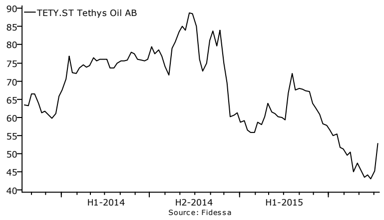
The fiscal year has just ended. We anticipate a trading update towards the end of this month. There may well be an update on the order intake, which we anticipate should still show good momentum. Last year, the trading update stated that it has risen by over 10% on a 'like-for-like' basis.

Sanderson now has some very large clients – particularly with its One iota business – and small and medium-sized businesses remain core to the 'evergreen' contracts which repeat over time. At last year's update Sanderson stated "Amongst small and medium-sized businesses ('SMEs'), we believe that, to date, business sentiment has continued to show some improvement". Given its UK focus, the Sanderson business environment is good. Set against that, with the focus on repeat work and customers being very price conscious, we anticipate a safe steady progression in sales and profits and cash.

There are large increases volumes in the c.15% of Group in areas like e-commerce and m-commerce but ongoing contracts tend to be steady-state in terms of revenue. Although H1 was particularly strong, given the strength registered in organic sales, we would hope there is scope for our estimates to be modestly beaten – modestly.

Sept Year End	2012	2013	2014	2015E	2016E
Sales (£m)	13.4	13.8	16.4	18.9	19.8
EBITDA (£m)	2.2	2.4	3.2	3.7	4.2
Operating profit (£m)	2.0	2.2	2.8	3.3	3.7
PBT (£m)	1.6	2.2	2.7	3.1	3.4
EPS (p)	3.6	4.1	4.4	4.7	4.9
DPS (p)	1.2	1.5	1.8	1.9	2.0
Net (debt)/cash (£m)	4.1	3.6	6.2	6.6	7.3
Net debt/EBITDA (x)					
P/E (x)	17.8	15.6	14.5	13.6	13.1
EV/Sales (x)	2.3	2.2	1.7	1.5	1.4
EV/EBITDA (x)	13.9	12.9	8.9	7.6	6.5
FCF Yield (%)	2.0	2.9	6.6	7.2	7.8
Dividend Yield (%)	1.9	2.3	2.8	3.0	3.1

Analyst
Mike Foster 020 7148 0545
mf@hardmanandco.com



Price (SEK)	**52.3**
Mkt cap (MSEK)	1857
Shares (m)	35.5
Sector	Oil & Gas
Market	First North, Stockholm
Broker	Remium
Website	www.tethysoil.com

Description: Tethys Oil is a Swedish energy company focused on identification and development and production of oil and natural gas assets in the Middle East, North Africa and Europe.

Tethys Oil AB (TETY)

Success in Lithuania as the Tidikas-1 exploration well at Raseiniai, onshore Lithuania which encountered a combined oil column of almost 50 metres in two different limestone formations and most importantly flowed oil to surface during drill stem tests.

The Bedungis-1 which completed earlier in August also showed oil but in this case none flowed to surface.

Tidkas-1 will now be put on a long term production test.

Tethys' production, (before government take) in Oman during August 2015 was 308,443 barrels of oil, or a rate of 9,950 barrels of oil per day.

Success in the Lithuanian exploration campaign has lifted Tethys' share price from its recent market-driven nadir.

Both wells in this first campaign targeted Silurian reefs and carbonate features previously mapped the 3D seismic study completed in 2014.

The wells were both relatively simple vertical wells through to Cambrian sandstones with Tidikas-1 drilled to a measured depth of 1,413 metres. Multiple cores were sampled from Silurian and Ordovician limestones, marls and dolomites.

"We are quite encouraged by the well results so far. There are now clear indications that an active petroleum system exists within the Raseiniai licence. We are looking forward to the results of the long term production tests from Tidikas-1 and the analysis of the cores from both Tidikas-1 and Bedugnis-1", said Magnus Nordin, Managing Director of Tethys Oil AB.

The location of further exploration wells on the Raseiniai licence will now be determined after more information has been gained through the long term production test of the Tidikas-1 well and the analysis of the cores.

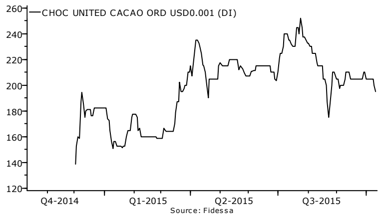
The Raseiniai licence covers 1,535 square kilometres onshore Lithuania. Tethys Oil has a 30% indirect interest in the licence.

Dec Year End	2011	2012	2013	2014	2015E
Sales (MSEK)	104	584	592	1,046	-
EBITDA (MSEK)	84	509	479	753	-
Operating Profit (MSEK)	83	336	285	404	-
PBT (MSEK)	69	314	240	350	-
EPS (SEK)	2.12	9.11	6.76	9.86	-
DPS (SEK)	-	-	-	-	-
Production, before government take (bbl)	423,469	1,345,854	1,663,069	2,765,654	-
Net sales, after government take (bbl)	147,228	776,248	850,926	1,464,228	-
Average Selling price $/bbl	107.37	110.35	106.63	103.9	-
P/E (x)	30.1	7.0	9.4	6.5	-
Cash TSEK	93	248	295	347	-
Shareholders Equity TSEK	456	860	1,100	1,675	-
Investments TSEK	208	875	289	259	-

Analyst

Mark Parfitt 020 7929 3399

mp@hardmanandco.com



Price (p)	**195.0**
Mkt cap (£m)	36.3
Shares (m)	18.6
Sector	Food Producers
Market	AIM
Broker	VSA Capital
	Kallpa Securities SAB
Website	www.unitedcacao.com

Description: UCL is a commercially scaled cocoa plantation located in the Peruvian Amazon, one of the best locations in the tropical belt for the crop. The company aims to produce high quality, sustainable and fully traceable bulk cocoa and Fine or Flavour cocoa with the goal of achieving premiums above the international traded price.

United Cacao Limited SEZC (CHOC)

With the goal of becoming one of the largest corporate producers of cocoa in the world, the United Cacao Limited SEZC (UCL) plantations may be coming on stream against the background of an anticipated deficit in supply of cocoa towards the end of this decade.

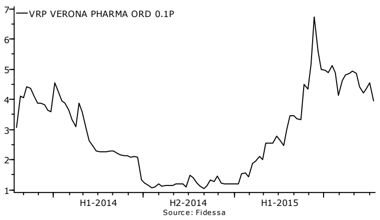
Listed on the London AIM on 2nd December, UCL now has more than 1,150ha of cocoa planted, comprising of 70% with the high yielding Ecuadorian variety CCN51, and 30% with aromatic varieties. At 1,111 trees per ha, this represents almost 1.28m trees planted at end June 2015. Borrowing from the palm oil sector model, UCL is also supporting the development a small farmer programme (PAPEC), possibly up to another 3,250 ha to give local agricultural families an economic stake in the global growth in demand for cocoa.

On 22ndJune, the company's shares were admitted for trading on the Lima Stock Exchange (Bolsa de Valores de Lima, or "BVL"), Peru, under the trading symbol "BVL:CHOC". The BVL is also a participant of the Mercado IntegradoLatinoamericano ("MILA"). Through MILA, the BVL is increasingly integrated with the regional equity markets in Colombia, Chile and Mexico.

UCL is an ambitious project which taps into strong global demand growth for cocoa. Growth in demand for chocolate confectionery has been running at between 6%-7% annually in the period 2010-2015 (Euromonitor International). Whilst demand growth has softened recently due to the weakness in the emerging markets economies, the trend in consumption from less than 100 gm per capita of cocoa across much of Asia currently to Japanese and Hong Kong levels of circa 1500 gms per capita, and 3,000 gms per capita for Europe and US, suggests long term emerging market demand will continue to grow, putting further pressure on the stock to use ratio (now only 38%). If UCL can achieve yields near to, or in line with targeted levels, then with a demand driven cocoa price that has consistently outperformed the soft commodities index, UCL may have the opportunity to build a profitable and valuable business in a tax free environment (until 2048).

Dec Year End	2014	2015E	2016E	2017E	2018E
Sales ($m)	-	0.0	0.5		
EBITDA ($m)	(2.5)	(1.5)	(2.9)		
Operating profit ($m)	(2.5)	(1.5)	(3.0)		
PBT ($m)	(2.5)	(1.4)	(3.2)		
EPS (c)	(18.0)	(7.5)	(14.5)	No	No
DPS (p)	-	-	-	Estimates	Estimates
Net (debt)/cash ($m)	(16.4)	(10.4)	(1.0)	At	At
Net debt/EBITDA (x)	-	-	-	Present	Present
P/E (x)	-	-	-		
Dividend Yield (%)	-	-	-		
EBITDA Margin (%)	-	-	-		
Planted Hectare (ha)	556	na	na		

Analyst
Yingheng Chen 020 7148 0547
yc@hardmanandco.com



Price (p)	**3.9**
Mkt cap (£m)	39.8
Shares (m)	1009.9
Sector	Pharma and Biotech
Market	London AIM
Broker	N+1 Singer
Website	www.veronapharma.com

Description: Verona Pharma plc is a UK-based biopharmaceutical company focused on development of innovative prescription drugs to treat respiratory diseases with significant unmet medical needs, such as COPD, asthma & cystic fibrosis.

Verona Pharma (VRP)

Verona is developing first-in-class drugs that treat unmet medical needs in respiratory disease. RPL554 is being fast-tracked to commercialisation by focusing on a $3.2bn market segment poorly serviced by existing drugs. Positive trial outcomes with RPL554 in COPD patients are a further step in the de-risking of the product and augur well for the larger Phase IIb trial planned for 2016. Despite the share price appreciation in 2015, the current EV suggests there is further upside potential given that the median prices paid for Phase II respiratory assets have headline valuations of $285m (£190m), equivalent to 19p per share.

- **RPL554 trial update:** Stages 1&2 proved that RPL554 was well tolerated and safe in healthy human volunteers and that the new formulation could be used at much higher doses. Stage 3 has repeated these findings in COPD patients with moderate disease, with the added benefit of an improvement in lung function
- **Cystic fibrosis:** Data from use of RPL554 was presented at the North American Cystic Fibrosis Conference in Arizona. RPL554 was shown to stimulate CFTR in a pre-clinical model; also activation by RPL554 is mediated by its inhibition of PDE4 in cells from cystic fibrosis patients with the R117H/F508del mutation.
- **Valuation:** About £14m has been invested in R&D to get VRP where it is today, compared to an EV of £33m. Positive outcomes from the phase II trial with RPL554, would represent a major value inflection point and progress the interest of pharmaceutical majors towards a commercial licensing deal.
- **Risks:** The main risk is that a product fails in clinical trials. In addition, following clinical development there remains regulatory and commercial risk. Rising cash burn on R&D investment and corporate infrastructure over the next three years is likely to require further capital increases.
- **Investment summary:** Historically, efficacy of PDE inhibitors has been positive, but putative drugs have failed due to side effects. The overall results of this trial with the new formulation of RPL554 have exceeded expectations, which augurs well for a larger Phase IIb trial planned for 2016. With big pharma constantly searching for new respiratory assets, RPL554 will definitely be on the radar.

Dec Year End (£000)	2013	2014	2015E	2016E	2017E
Sales	0	0	0	0	0
Royalties	0	0	0	0	0
Underlying EBIT	-2,630	-3,601	-8,585	-4,164	-4,418
Reported EBIT	-2,817	-3,793	-9,102	-4,556	-4,831
Underlying PTP	-2,627	-3,571	-8,543	-4,160	-4,491
Statutory PTP	-2,814	-3,763	-9,060	-4,552	-4,902
Underlying EPS (p)	-0.7	-0.3	-0.7	-0.3	-0.4
Statutory EPS (p)	-0.7	-0.3	-0.8	-0.3	-0.4
Net (debt)/cash	604	9,970	2,188	-1,193	-4,579
Shares issued	1,802	13,103	100	100	100
P/E (x)	-	-	-	-	-
EV/sales (x)	-	-	-	-	-

Analysts

Mark Brewer 020 7148 1434
mb@hardmanandco.com
Martin Hall 020 7148 1433
mh@hardmanandco.com

Disclaimer

Hardman & Co provides professional independent research services. Whilst every reasonable effort has been made to ensure that the information in the research is correct, this cannot be guaranteed.

The research reflects the objective views of the analysts named on the front page. However, the companies or funds covered in this research may pay us a fee, commission or other remuneration in order for this research to be made available. A full list of companies or funds that have paid us for coverage within the past 12 months can be viewed at http://www.hardmanandco.com/

Hardman & Co has a personal dealing policy which debars staff and consultants from dealing in shares, bonds or other related instruments of companies which pay Hardman for any services, including research. They may be allowed to hold such securities if they were owned prior to joining Hardman or if they were held before the company appointed Hardman. In such cases sales will only be allowed in limited circumstances, generally in the two weeks following publication of figures.

Hardman & Co does not buy or sell shares, either for its own account or for other parties and neither does it undertake investment business. We may provide investment banking services to corporate clients.

Hardman & Co does not make recommendations. Accordingly we do not publish records of our past recommendations. Where a Fair Value price is given in a research note this is the theoretical result of a study of a range of possible outcomes, and not a forecast of a likely share price. Hardman & Co may publish further notes on these securities/companies but has no scheduled commitment and may cease to follow these securities/companies without notice.

Nothing in this report should be construed as an offer, or the solicitation of an offer, to buy or sell securities by us.

This information is not tailored to your individual situation and the investment(s) covered may not be suitable for you. You should not make any investment decision without consulting a fully qualified financial adviser.

Hardman Research Ltd, trading as Hardman & Co, is an appointed representative of Capital Markets Strategy Ltd and is authorised and regulated by the Financial Conduct Authority (FCA) under registration number 600843. Hardman Research Ltd is registered at Companies House with number 8256259. However, the information in this research report is not FCA regulated because it does not constitute investment advice (as defined in the Financial Services and Markets Act 2000) and is provided for general information only.

Hardman & Co Research Limited (trading as Hardman & Co)
11/12 Tokenhouse Yard
London
EC2R 7AS
T +44 (0) 207 929 3399

Follow us on Twitter @HardmanandCo

Hardman Team

Marketing / Investor Engagement

+44 (0)20 7929 3399

Richard Angus	ra@hardmanandco.com	+44 (0)207 148 0548
Max Davey	md@hardmanandco.com	+44 (0)207 148 0540
Keith Hiscock	kh@hardmanandco.com	+44 (0)207 148 0544
Felicity Reid	fr@hardmanandco.com	+44 (0)207 148 0546

Analysts +44 (0)20 7929 3399

Agriculture		Bonds	
Doug Hawkins	dh@hardmanandco.com	Brian Moretta	bm@hardmanandco.com
Yingheng Chen	yc@hardmanandco.com		
Meghan Sapp	ms@hardmanandco.com		

Building & Construction		Consumer & Leisure	
Tony Williams	tw@hardmanandco.com	Mike Foster	mf@hardmanandco.com
Mike Foster	mf@hardmanandco.com	Steve Clapham	sc@hardmanandco.com

Financials		Life Sciences	
Brian Moretta	bm@hardmanandco.com	Mark Brewer	mb@hardmanandco.com
		Martin Hall	mh@hardmanandco.com

Media		Mining	
Derek Terrington	dt@hardmanandco.com	Ian Falconer	if@hardmanandco.com
		Stephen Thomas	st@hardmanandco.com

Oil & Gas		Property	
Stephen Thomas	st@hardmanandco.com	Mike Foster	mf@hardmanandco.com
Mark Parfitt	mp@hardmanandco.com		

Services		Social Impact	
Mike Foster	mf@hardmanandco.com	Mike Foster	mf@hardmanandco.com

Special Situations		Technology	
Steve Clapham	sc@hardmanandco.com	Michael Kovacocy	mk@hardmanandco.com
		Mike Foster	mf@hardmanandco.com

Hardman & Co

11/12 Tokenhouse Yard
London
EC2R 7AS
United Kingdom

Tel: +44(0)20 7929 3399
Fax: +44(0)20 7929 3377

www.hardmanandco.com