February 2016 Monthly

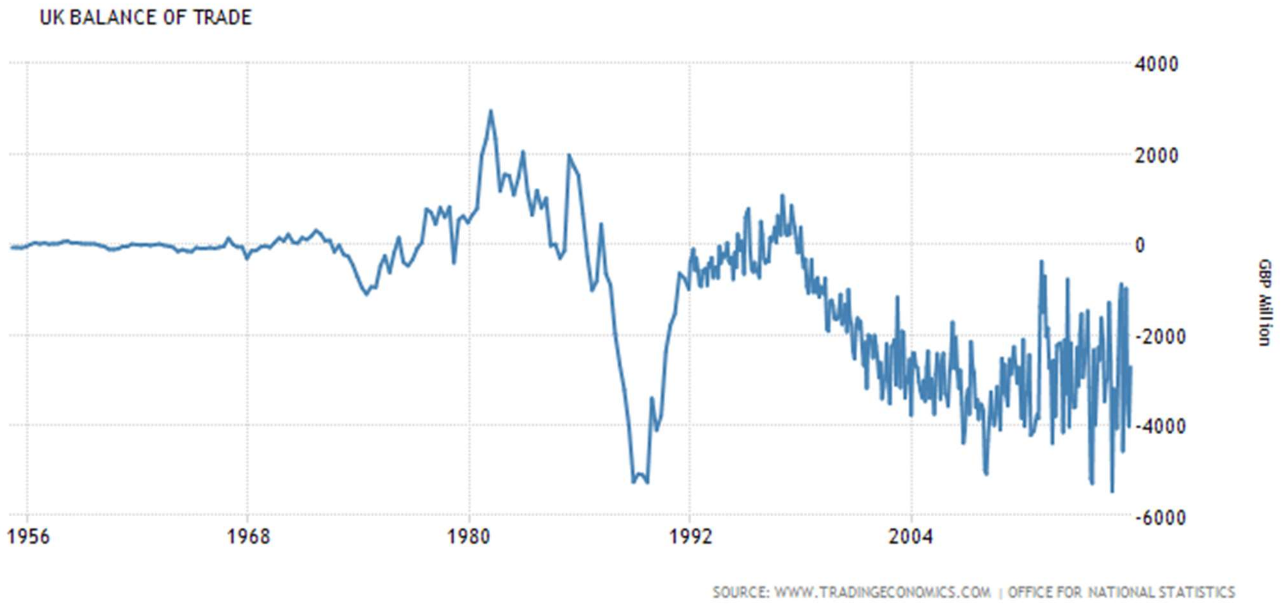
Feature Article: Patient Investing in Step Change Innovation

By Charles Breese, Managing Director of Larpent Newton and Co Ltd.

The timing of being invited to write this article is perfect, coinciding as it does with a) the huge uncertainty which 2016 thus far has presented to investors (resulting in the frequently heard question 'what do I do with my money?') and b) last week's sale of Swiftkey [https://swiftkey.com/en] for $250m to Microsoft. The company was founded in 2008 by two people in their 20s to develop predictive keyboards driven by artificial intelligence - its technology is embedded in over 300m devices worldwide - this success was achieved with total investment of $20m. Octopus Investments (in which I am a shareholder) was one of the investors in Swiftkey.

The reason for mentioning Swiftkey is that it is illustrative of some of my key beliefs, namely a) the UK has an above average capability for developing step change innovation, b) as the successes start to come through, the pool of people in the UK capable of successfully commercialising step change innovation is growing (thereby starting to address the UK's longstanding record of top flight science but poor commercialisation), and c) large corporates are generally weak at developing step change innovation and need to access it by buying it. This creates a wonderful backdrop for the patient investor - it is also very satisfying to contribute to companies which have successfully created world beating products, create fulfilling employment and are net exporters - it means that I have suitable retorts for my children when they observe that my generation has delivered a very feeble economy for their generation to sort out!

UK Balance of Trade



Source: ONS

How the SMARTCO concept was developed

The SMARTCO concept has been bubbling away for a while, but there are two milestone events which contributed to its formulation:

i) Sheffield, 1960s:

I was articled as a chartered accountant in Sheffield at this time, and had the benefit of seeing the back-end of the first industrial revolution. Had I been articled in London I would have just seen banks and insurance companies. This exposure showed me that very ordinary people could have extraordinary skills to produce incredibly complex products, but they were often employed in poorly managed businesses.

This was the start of an era in which hundreds of thousands of manufacturing jobs were lost in the North and the West Midlands. With this began the nation's reliance on the services sector that saw the UK rack up a massive balance of trade deficit in the process. There is no better illustration of this transformation than Sheffield itself, where the giant Meadowhall centre, a mecca to retail, has replaced the forges and steam hammers that once made the area the steel capital of the world.

ii) Britain, 1982:

I had just joined one of the UK's early venture capital businesses and was thinking about how one could invest against the following background:

- in the 1970s and early 1980s, UK business was in terrible shape, and many management teams had forgotten how to manage
- the UK economy was very weak, with sizable Public Sector Borrowing Requirement, large balance of trade deficits and high levels of unemployment

An increasing life expectancy, which could lead to increased demand being placed on health services in conjunction with the expectation on the part of the individual that he or she was going to spend the last 33% of their life in retirement. It's notable that when the state pension retirement age of 65 was set in the UK in the 1909, only 25% of the population reached the age of 70. At the same time final salary pension funds were not being adequately funded to meet their rising obligations.an assumption on the part of both governments and consumers that debt funded consumption could drive growth not only in the short term but also over the longer term.

So there were plenty of problems for business to solve. At the same time, there were significant advances in technology under way, examples of which included computing becoming much cheaper and more powerful, the convergence of telephony and computing, and biotechnology becoming more widely known outside the laboratory. All of this led to the SMARTCO investment approach referred to above, assisted by my belief that if change is inevitable one might as well drive it rather than react to it.

In addition to the search for exciting companies the other drivers underlying SMARTCO investing are:

a) Reducing the UK's Trade Deficit

I am indebted to data from Keith Hiscock's paper *Why AIM Company Management Ignore Retail Investors at their Peril* - this showed that ownership of UK equities between 1963 and 2014 changed as follows:

- individuals: dropped from c.55% to c.11%
- overseas investors: grew from c.8% to c.55%

In other words, the UK has effectively funded much of its trade deficit by selling assets. This is fine whilst there are assets to sell and willing buyers. However, as a country this is not a sustainable position, particularly when major purchasers such as sovereign wealth funds (supported until recently by buoyant natural resource markets) are unlikely for the foreseeable future to have the investing power which they have had for the last few decades. For future UK generations it is vital that the UK develops more companies which are net exporters and/or import substituters.

b) The Need to Improve Productivity

Businesses which improve the productivity of their direct and indirect customers attract me because when economic times are challenging the need for such goods and/or services is even more compelling - in other words they are well positioned to thrive throughout economic cycles. A number of people question the need to improve productivity when doing so puts people out of work - my response is to quote from a pamphlet by Terry Arthur, *The Consumer Failed to Deliver Last Year and Other Fables*:

> *'Two workmen were digging out a quarry with a gigantic excavator. One said to the other "It's a crying shame: this quarry would provide work for a thousand men with shovels". The other replied "Or a million men with teaspoons."'*

Source: The Consumer Failed to Deliver Last Year and Other Fables, Terry Arthur, 1993

c) Teams

One of the keys to success is matching up the developers of game changing technology with people with senior industry relevant commercialisation experience gained within a large corporate. I am meeting an increasing number of very able people leaving big corporates because they can't stand the decision making processes within such organisations - they are attracted to smaller companies which they consider are doing something worthwhile, have sensible decision making processes and where their experience can make a difference. Although smaller companies are categorised by the regulators as high risk, I believe that risk is reduced by building teams in this manner.

d) Private Investors/Capital Markets

Over the last fifty years there has been a huge swing from private investors investing directly in companies to investing indirectly via institutional investors. I believe that the pendulum is just starting to swing the other way as new capital market mechanisms (largely enabled by the internet) emerge which leave private investors in charge of making their own decisions whilst being organised in a way which enables companies to treat them similarly to institutional investors. I am optimistic that we will start to see the emergence of new models of smallcap advisory stockbroking appropriate to the 21st century - research is a key component of the solution, which is where Hardman has a vital role to play.

SMARTCOs

In Summary, I invest in companies which are commercialising game changing technology applicable to solving global problems (exporters), improving the productivity of their direct and indirect customers, pursuing a business model generating a growing stream of predictable income (enabling resource to be directed away from ongoing lead generation and into product development), and with the potential to be grown to a value of at least £100m and significantly beyond with successful ongoing execution of the strategy. I refer to companies meeting this profile collectively as SMARTCOs. Examples of areas which provide fertile SMARTCO investing opportunities are personalised medicine, performance materials, robotics, and the internet of things.

I see the world as full of opportunity despite the current widespread uncertainty. If you are interested in learning more about how to participate in the new capital market mechanisms or finding your first SMARTCO as referred to above, please contact Kirsty Macrae (email: km@hardmanandco.com /T: 020 7148 1435) and I will be pleased to explain.

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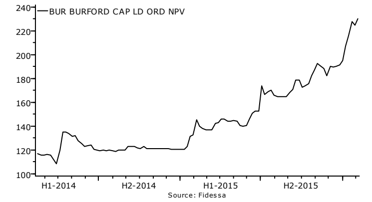
Company Highlights

- **Grafenia (GRA):** We anticipate a trading update later this month.
- **MedicX Fund (MXF):** 8th February- EPRA NAV update: 71.2p (+2% vs end September).
- **Primary Health Properties (PHP):** 4th February Final Results announcement.
- **Purplebricks Group (PURP):** 26th January- interim results.
- **Real Good Food (RGD):** 7th February Trading update.

Financials



Source: Fidessa

Price (p)	**230.5**
Mkt cap (£m)	471.37
Shares (m)	204.5
Market	London AIM
Broker	Macquarie Group
	www.burfordcapital.com

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

Burford Capital (BUR)

In early January Burford announced that it was providing litigation financing to a top 20 FTSE company. The arrangement covers a portfolio of pending litigation matters. The structure seems to follow Burford's usual arrangements, allowing the company to not have to take the legal expenses as a cost in its accounts. Instead Burford's capital is used, in return for taking a portion of the proceeds across the portfolio.

- The return is structured on a cross-collateralised basis, protecting Burford against the risk of any single case losing. This is another illustration of Burford's ability to take on more complex investments, with benefits for Burford's investors and their clients.

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- The commitment is for $45m. As usual, only a portion of that will be payable up front with the balance available as cases develop. While we are not adjusting our figures on the back of this announcement, it is further evidence that Burford can continue to grow its investment book.

Financial summary and valuation

Year End Dec	2013	2014	2015E	2016E	2017E
Revenue	60.7	82.0	80.6	82.1	92.6
Operating Profit	42.5	60.7	56.0	56.7	66.6
Reported net income	2.6	45.4	45.3	46.3	56.4
Underlying net income	40.1	53.0	45.2	46.3	56.4
Underlying Return on Equity	0.12	0.12	0.11	0.11	0.13
Underlying EPS ($)	0.20	0.26	0.22	0.23	0.28
Statutory EPS ($)	0.01	0.22	0.22	0.23	0.28
Dividend per share ($)	0.05	0.07	0.08	0.09	0.10
NAV per share ($)	1.7	1.9	2.0	2.1	2.3
P/E (x) (underlying)	16.9	12.8	15.0	14.7	12.0
Price/NAV (x)	1.9	1.8	1.7	1.5	1.4
Dividend Yield (%)	1.6%	2.1%	2.4%	2.7%	3.0%

Source: Hardman & Co Research

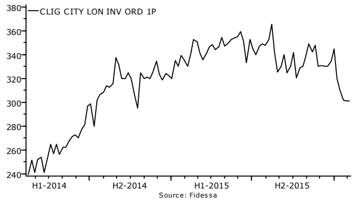
Analyst

Brian Moretta 020 7929 3399

bm@hardmanandco.com

hardman&co

Financial Services



Source: Fidessa

Price (p)	**319.0**
Mkt cap (£m)	85.8
Shares (m)	26.9
Market	London Full List
Broker	Canaccord Genuity
	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 Investment Group (CLIG)

City of London issued a trading update last month with its figures to the end of 2015. Funds under management were $3.8 billion. This compares with $4.2bn at the start of the year and $3.6bn at the end of the first quarter. Markets have been the main driver of the decline, though this has been offset by good performance and new fund flows. The fall in FUM over the first half was 11%, compared to a decline of 17% in the MSCI Emerging Markets TR Index.

- **Pipeline:** New business acquisition has been going well. As well as the first half inflows, there is another $200m won which will be funded over the next few months. This has been spread across several areas of the business.
- **Profitability:** The market declines have had a corresponding effect on profits. The first half profit before tax was £3.6m, a decline of 16% on the previous year's £4.3m. After tax this is below the dividend run rate, and whether cover is restored in 2H2016 is very dependent on market movements.
- **Valuation:** The prospective P/E of 14.6 times is now at a slight premium to the peer group. The yield of 7.3% 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 sort of outflows that some other emerging market fund managers have, aided by its good performance and strong client servicing. Further EM volatility may increase the risk of such outflows however.
- **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 gap that current market levels imply.

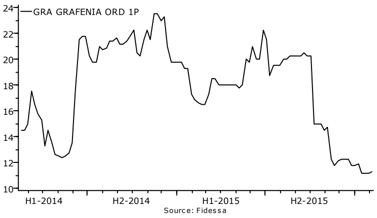
Financial summary and valuation

Year End Jun	2013	2014	2015E	2016E	2017E
Sales (£m)	29.4	24.2	25.4	22.5	25.0
EBITDA (£m)	8.6	7.2	8.9	8.1	9.8
Operating Profit (£m)	8.4	7.0	8.7	8.0	9.7
PBT (£m)	8.9	7.2	8.9	7.8	9.7
EPS (p)	24.9	20.7	26.4	22.6	28.5
DPS (p)	24.0	24.0	24.0	24.0	24.0
Net (debt)/ Cash (£m)	10.1	10.2	10.2	11.3	12.2
Net cash/EBITDA (x)	1.2	1.4	1.1	1.4	1.2
P/E (x)	12.8	15.4	12.1	14.1	11.2
EV/Sales (x)	2.6	3.1	3.0	3.3	2.9
EV/EBITDA (x)	8.8	10.5	8.5	9.2	7.5
FCF Yield (%)	12.8	7.1	7.7	8.1	7.8

Source: Hardman & Co Research

Analyst
Brian Moretta 020 7929 3399
bm@hardmanandco.com

Support Services



Source: Fidessa

Price (p)	**10.75**
Mkt cap (£m)	4.95
Shares (m)	46.0
Market	London AIM
Broker	N + 1 Singer
Website	www.grafenia.com

Description: Printing for SMEs via franchise offices and online. 90% UK.

Grafenia (GRA)

We anticipate a trading update later in February. The Grafenia 'Expoganza' events at Manchester and London were successes, generating sales, but more importantly showing the commitment of Grafenia to support its resellers with step-change products. These newer product lines were attracting significant sales interest and the benefit to resellers stems from the past two years' dialogue between Grafenia and its resellers to hone both the products and their ease of sale by the re-sellers to the ultimate end-users.

- Grafenia has traction in restructuring the world of corporate print and web marketing. It has taken significant investment and time. Further, the € exposed non-growth Dutch business disposed was profitable. So we anticipate modest profits this year, but the 'sunk investment' we do see as starting to pay off.

- Shares trade at under 60% of ongoing sales. Visibility of the newer income streams is rising but is still below that of the declining traditional print business so an element of caution is required, but the underpinning is robust. The business is well invested, funded out of cash generated by operations.

- It is expected the new income streams will stabilise print volumes as they complement the business activity of the Company's partners across its sales channels.

- Gross profit margins are rising and the company has invested into its significantly 're-engineered' future out of operating cash flow. It is concentrating on the home market in the medium term, with new offerings being made available to its various international master licence holders.

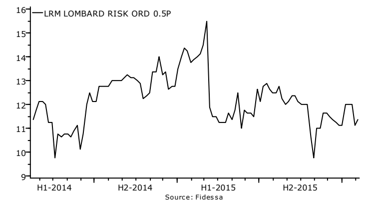
Financial summary and valuation

Year End Mar	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	
DPS (p)	2.6	2.6	1.3	1.5	No
Net (debt)/cash	1.8	1.4	1.4	1.3	Estimates
Net debt/EBITDA (x)	cash	cash	cash	cash	At
P/E (x)	4.7	5.1	6.0	6.0	Present
EV/Sales (x)	0.1	0.2	0.2	0.2	
EV/EBITDA (x)	0.9	1.4	1.4	1.4	
FCF Yield (%)	36.4	16.2	18.2	18.2	
Dividend Yield (%)	23.7	24.2	12.1	14.0	

Source: Hardman & Co Research

Analyst
Mike Foster 020 7148 0545
mf@hardmanandco.com

Software & Services



Source: Fidessa

Price (p)	**12.11**
Mkt cap (£m)	31.89
Shares (m)	263.4
Market	London AIM
Broker	Panmure Gordon
	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 a trading update late in March. Lombard Risk is growing, albeit the sales growth has slowed to 21% 2014, 5% 2015 and an estimated 9% this year. H1 revenue rose 16%, with an estimated 4% sales growth H2. To a degree, there is an element of 'which side of the year end' do particular contracts fall. At September bookings were +48%.

- FY15 growth metrics were: +5% sales, +12% costs excluding the effects of capitalisation (and amortisation thereof) of software spend but +20% total costs as accounted for (i.e. with capitalisation). We estimate total technology spend of £9.0m FY16E vs £7.5m FY15, with £3.0m expensed (vs £2.4m FY15).
- Nick Davies, CTO, has resigned, post six years' service on the board. This is after leading through a period of substantial growth for the group and a shift, not only to new products and customer types (e.g. alliances) but a transition increasingly to cloud delivered services.
- It is expected the new income streams from Alliances will accelerate FY17. This is one of several avenues of growth. The effect to date of Alliances has been on costs, investing in software for the wide variety of different formats required.
- Direct sales are expanding and Lombard Risk has pointed to "our sales team strengthening". This – like software development – is becoming more differentiated, selling in a somewhat reconfigured manner in the past year.

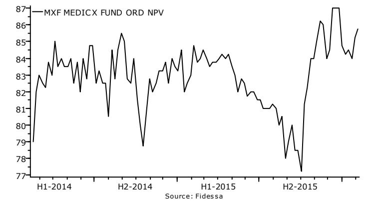
Financial summary and valuation

Year End Mar	2012	2013	2014	2015	2016E
Sales (£m)	12.8	16.8	20.4	21.5	23.5
EBITDA (£m)	3.0	5.3	6.0	4.4	5.2
Operating profit (£m)	2.5	4.0	4.5	2.3	1.5
PBT (£m)	2.5	3.9	4.4	2.3	1.5
EPS (p)	1.1	1.7	2.1	0.8	0.5
DPS (p)	0.055	0.065	0.075	0.080	0.090
Net (debt)/cash (£m)	(2.4)	0.2	2.3	2.2	3.0
Net debt/EBITDA (x)	nm	(0.0)	(0.4)	(0.5)	(0.6)
P/E (x)	11.2	7.1	5.8	15.1	-
EV/Sales (x)	2.7	1.9	1.5	1.4	1.2
EV/EBITDA (x)	11.4	6.0	4.9	6.7	5.6
FCF Yield (%)	(5.3)	4.1	(1.6)	0.6	(3.1)

Source: Hardman & Co Research

Analyst
Mike Foster 020 7148 0545
mf@hardmanandco.com

Real Estate



Source: Fidessa

Price (p)	**86.00**
Mkt cap (£m)	312.52
Shares (m)	363.4
Market	London Full List
Broker	Canaccord Genuity
	www.medicxfund.com

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

MedicX Fund (MXF)

EPRA NAV of 71.2p was announced on 8th February, up 2.0% vs the end of September 2015, post a quarterly dividend of 1.475p paid on 31st December and post a £2.5m valuation gain. The forthcoming AGM in February is not normally accompanied by a trading update. We consider MedicX has medium term scope to raise EPS (ex revaluations) on a sustainable basis at 7% pa. We consider that in due course rental inflation will accelerate, so even if expansion in the higher yielding Republic of Ireland jurisdiction does not continue beyond an initial £100m or so, that underlying rate of illustrative 7% EPS growth would be achievable for a number of years. The mechanism and shorter term implications of ROI are important to understand, as they result in year 1 profit 'drag' during the period of asset construction.

- We initiate FY17E headline numbers. £15.5m pre revaluations and a pre £0.5m assumed performance fee. This equates to 3.95p EPS, a 4% rise on FY16E. MedicX has been maintaining its modest issuance of shares held in treasury. Note 372m shares in issue vs 361m FY15 average.

- FY17E profits step up modestly, with fees still frozen that year, income just starting from new ROI assets and the ongoing rise from rent increases. FY18E benefits much more fully from ROI thus EPS growth is fully anticipated to accelerate that year, nearer to our current 7% medium term estimates.

- MedicX is growing well, making acquisitions in UK and, now, also in Republic Ireland. For ROI forward funded developments there is no income booked (unlike UK) until it opens. Post the December results, we raised portfolio acquisition/ forward funding expectations slightly (to £70m).

- Post results we therefore nudged to slightly higher y/end 2016 debt and thus slightly higher interest cost. Our 11% FY16E EPS rise (ex revaluations) is principally driven by absence of tax charge FY16 vs FY15, noting this is post the finance cost of ROI forward funding. Currently, fees agreed are frozen.

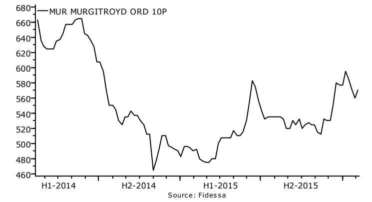
Financial summary and valuation

Year End Sep	2012	2013	2014	2015E	2016E
Income (£m)	16.6	25.5	29.5	33.7	38.2
Operating profit (£m)	12.2	20.2	21.8	27.3	30.2
Interest (£m)	(7.1)	(11.0)	(13.0)	(13.8)	(16.2)
Declared profit	2.6	9.7	20.4	39.1	24.0
PBT Adj.(pre revaln, perf fee) (£m)	5.4	9.8	10.7	13.5	14.5
EPS Reported (p)	1.1	3.6	5.9	9.9	6.4
EPS Adj. (p)	2.2	3.6	3.1	3.4	3.8
DPS (p)	5.6	5.7	5.8	5.9	6.0
Property acquisitions	145.2	95.0	65.0	21.0	70.0
Net (debt)/cash (£m)	(190.0)	(246.7)	(255.2)	(281.5)	(354.6)
Dividend Yield (%)	6.5	6.6	6.7	6.9	7.0
Price/NAV	1.35	1.36	1.31	1.21	1.18
NAV (p)	63.5	63.1	65.4	70.8	73.0

Source: Hardman & Co Research

Analyst
Mike Foster 020 7148 0545
mf@hardmanandco.com

Support Services



Source: Fidessa

Price (p)	**570.00**
Mkt cap (£m)	50.88
Shares (m)	8.9
Market	London AIM
Broker	N+1 Singer
	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 for the six months to November were reported on 1st February, in line to slightly ahead of expectations. H1 PBT of £2.1m was just ahead of our £2.1m estimate. Currently we are maintaining full year estimates but raise the dividend estimate to 16.25p from former estimate of 16.0p versus FY15 14.75p. H1 revenues were £20.4m (+5.7%). Cash generation has been good and dividend increases of 11.8% proposed continue the trend of recent years. The USA is continuing a strong driver, as expected. This is important as Murgitroyd has been investing in offices in several US locations. This comprises 43% Group sales, and grew 18% year on year. Note that it constituted 39% of total sales 1H15, up 22%.

- Murgitroyd has been expanding its Global Support Services group for some years and this now constitutes 34% Group sales. A number of client wins have led to 48% of the Group's sales rise being from this division's 9% revenue expansion.

- Attorney Practice Groups divn comprises 66% of Group revenue and is in modest revenue growth mode, focusing on customer service including passing productivity enhancement benefits into the mix of enhanced client service. Global pricing has been difficult for a while: a situation Murgitroyd works with.

- The European Patent Office ("EPO") is yet to report its 2015 statistics, so the most recent available data relates to 2014. This showed a 3% year on year increase in Patent filings for 2014, with the number of applications rising to more than 273,000, an all-time high.

- EPO's provisional 2015 data indicates filings c.+1% and applications for patents +5% year on year. These market figures are subject to revision and we look forward to publishing more detailed figures for them at the beginning of April. This does however indicate that forward demand momentum has remained.

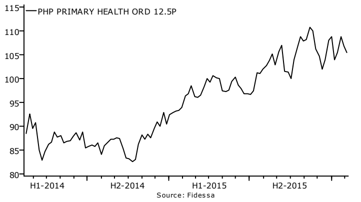
Financial summary and valuation

Year End May	2012	2013	2014	2015	2016E
Sales (£m)	35.7	36.0	38.4	39.8	41.0
EBITDA (£m)	4.7	4.9	4.6	4.5	4.9
Operating profit (£m)	4.5	4.7	4.2	4.2	4.4
PBT (£m)	4.4	4.6	4.2	4.2	4.4
EPS (p)	35.8	37.5	33.6	34.5	36.3
DPS (p)	12.0	12.5	13.3	14.8	16.3
Net (debt)/cash (£m)	(4.6)	(3.2)	(0.4)	0.7	1.5
Net debt/EBITDA (x)	1.0	0.7	0.1	(0.2)	(0.3)
P/E (x)	15.9	15.2	17.0	16.5	15.7
EV/Sales (x)	1.6	1.5	1.3	1.3	1.2
EV/EBITDA (x)	11.7	11.0	11.1	11.2	10.2
FCF Yield (%)	4.7	3.5	4.9	4.7	5.7

Source: Hardman & Co Research

Analyst
Mike Foster 020 7148 0545
mf@hardmanandco.com

Real Estate



Source: Fidessa

Price (p)	**105.43**
Mkt cap (£m)	469.16
Shares (m)	445.0
Market	London Full List
Broker	Numis Securities/Peel Hunt
	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)

Results on 4th February were in line with expectations. The big new news is expansion into Republic of Ireland, which is a low-risk way to enhance income (yield pick up c200 bps higher than UK equivalent). The efficiency gains (fees and also borrowing margins) rose further (as indicated) in H2, so there will be some momentum to benefit slightly further into 2016 vs 2015. On 11th November, PHP shares' subdivision became effective: investors hold four for every one which used to be held. Separately, the resolution to pay dividends quarterly has been confirmed.

- **Strategy:** PHP grows its portfolio to generate dividend growth, for minimal risk. PHP's entry into Republic of Ireland makes a modest but positive impact. We anticipate £70m asset acquisitions this year and similar next, still mostly UK. We initiate 2017E.

- **Stability and growth**: 12% NAV rise 2015. PHP has trebled its portfolio size in five years. PHP's reputation and track record assists when buying both standing assets and new stock. In 2015, £40m purchases were made. 2016 EPS would grow even with nil acquisitions. Loan to value ratios currently stand at 63.2.

- **Investment summary:** We calculate PHP Total Shareholder Return (TSR) CAGR of 13% over the past five years. In 2015 TSR 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.

- **Valuation:** This (healthcare) real estate sub-sector trades at a premium to NAV, as indeed it does also in the USA. PHP's shares are valued on the basis of its assets and a robust progressive dividend, with cover rebuilt to over 100%. Our model assumes nil revaluation H2 2015 and a modest 2016 rise of 1%.

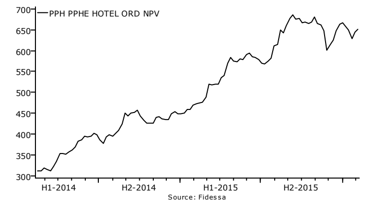
Financial summary and valuation

Year End Dec	2013	2014	2015	2016E	2017E
Income (£m)	42.0	60.0	63.1	67.8	73.6
Operating profit (£m)	35.5	52.5	55.4	59.7	65.1
Interest (£m)	(26.9)	(35.5)	(33.7)	(35.0)	(37.0)
Declared profit	20.2	36.9	56.0	34.7	38.1
PBT Adj.(i.e. pre revaln) (£m)	9.5	18.2	21.7	24.7	28.1
EPS Reported (p)	5.7	8.3	12.6	7.7	8.1
EPS Adj. (p)	2.7	4.1	4.8	5.4	5.9
DPS (p)	4.8	4.9	5.0	5.2	5.4
Property acquisitions	291.0	75.0	29.5	70.0	70.0
Net (debt)/cash (£m)	(587.0)	(655.0)	(695.0)	(744.0)	(792.0)
Dividend Yield (%)	4.6	4.6	4.7	4.9	5.1
Price/NAV	1.54	1.52	1.35	1.29	1.23
NAV (p)	68.5	69.5	78.0	82.0	86.0

Source: Hardman & Co Research

Analyst
Mike Foster 020 7148 0545
mf@hardmanandco.com

Travel & Leisure



Source: Fidessa

Price (p)	**648.00**
Mkt cap (eur)	371.38
Shares (m)	41.5
Market	London (Main)
Broker	finnCap & Oriel
	www.pphe.com

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

PPHE Hotel Group (PPH)

PPHE, the owner and operator of Park Plaza hotels in Europe, published a year-end trading statement in January. Importantly, it underpinned current forecasts and that its key expansion projects are on time and within budget, with openings mainly scheduled for the summer. The share price has continued to be firm againist a collapsing stockmarket. PPHE continues to trade at significant discounts to the real NAV and to its peers.

- **Positive Trading:** The trading statement confirmed that revenue increased by c.12% for the full year, which is better than our 10% estimate, but with results in a month's time, we are not revising forecasts. The company noted that full year results should be in line with internal expectations.

- **RevPAR strong**: Group RevPAR grew by 12.1% to €127.3 (2014: €113.6), driven by an 11.3% increase in average room rate to €150.9 (2014: €135.6) and 60 bps increase in occupancy to 84.3% (2014: 83.7%). The RevPAR increase for Q3 was identical, although note the weak Euro helped in Q4 and may not similarly help 2016. This performance was strong given that the industry reported softer results in London on December, possibly reflecting the Paris attacks.

- **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.

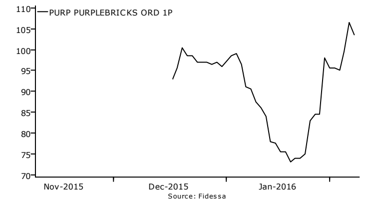
- **Valuation:** The stock is trading at a level which does not reflect the real value of the assets. Although the investment case continues to gain traction, the share trades at a significant discount to asset value, and offers an attractive dividend yield which is well covered and should continue to grow.

Financial summary and valuation

Year end Dec (€m)	2011	2012	2013	2014	2015E
Sales	202.4	242.1	244.8	270.4	296.8
EBITDA	65.1	85.6	82.6	94.8	106.3
Operating profit	44.1	55.1	56.2	67.5	76.3
Underlying PBT	13.6	18.4	27.3	41.6	37.3
EPS (€)	0.33	0.44	0.65	0.98	0.88
DPS (p)	6.0	12.0	14.0	19.0	20.9
Net (debt)/cash (€m)	-387.1	-460.6	-483.0	-483.1	-575.4
Net debt/EBITDA (x)	6.0	5.4	5.8	5.1	5.4
P/E (x)	26.4	19.5	13.2	8.8	9.8
EV/Sales (x)	3.5	2.9	2.9	2.6	2.4
EV/EBITDA (x)	14.4	11.0	11.4	9.9	8.8
Dividend Yield (%)	0.9	1.8	2.1	2.9	3.2

Analyst
Steve Clapham 020 7929 3399
sc@hardmanandco.com

Software & Computing Services



Source: Fidessa

Price (p)	**102.00**
Mkt cap (£m)	244.80
Shares (m)	240.0
Market	AIM
Broker	Zeus Capital
	www.purplebricks.com

Description: Purplebricks is the fourth largest estate agency in the UK. It has a unique hybrid model combing the convenience of online tools with local property expertise. Customers can add ancillary services to the basic fixed fee.

Analyst

Mike Foster 020 7148 0545

mf@hardmanandco.com

Purplebricks Group (PURP)

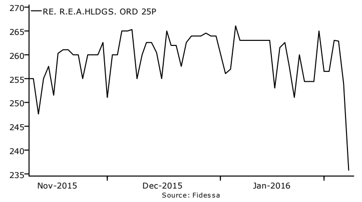
Purplebricks' 26th January maiden results as a quoted company came in as expected. We maintain our financial estimates. Rapid partner growth, the Local Property Experts (LPE), is confirmed. These now total 178 (vs 164 on 18 November). Our estimate of 153 average for FY16 is maintained as are our forward estimates. Momentum in sub-licencee recruits is high and rising fast. Current 'live' instructions total over 4,700, up from 4,232 18th November. The rate of new instruction in January is likely to have been 350% higher than January 2015. With £7.2m sales H1, we anticipate £17.8m full year. Revenue is booked on instruction, thus the active Spring season impacts H2.

- **Strategy:** Since initial concept launch 2011, the strategy has remained the same: to take leading and ever larger market share within the online segment and the whole market. This is delivered through its high quality highly remunerated LPEs, achieving and maintaining high visibility. Results were reported 26th January**.**
- **Significant growth potential:** At results, Purplebricks announced "The strength of trading has resulted in the decision to accelerate the recruitment of LPEs". We estimate 310 average in FY17 (+102% yoy). Our model indicates peak growth in sales to be in FY17E, at 176%, growth continuing at an estimated 44% in FY18E.
- **Risks:** Purplebricks is currently cash flow negative. We maintain our estimate of £27.3m net cash end April 2016 and turning cash flow positive at some stage during FY17E. Along with all other UK estate agents, Purplebricks has reliance on third party portals for its listings and operates in a cyclical market.

Financial summary and valuation

Year end Apr (£m)	2015	2016E	2017E	2018E	2019E
Sales (£m)	3.4	17.8	49.2	71.2	100.0
EBITDA (£m)	(5.4)	(10.7)	8.0	18.9	34.0
Operating profit (£m)	(5.4)	(10.7)	8.0	18.9	34.0
PBT (£m)	(5.4)	(13.1)	8.0	18.9	34.0
EPS (p)	na	na	3.3	7.1	10.7
DPS (p)	-	-	-	-	-
Net (debt)/cash (£m)	4.6	27.3	35.6	54.7	60.0
Net debt/EBITDA (x)	na	na	na	na	na
P/E (x)	na	na	30.9	14.4	9.5
EV/Sales (x)	70.6	12.2	4.3	2.7	(0.6)
EV/EBITDA (x)	(44.5)	(20.3)	26.2	10.1	(1.8)
FCF Yield (%)	1.2	9.4	3.3	7.8	13.5

Food Producers



Source: Fidessa

Price (p)	**235.75**
Mkt cap (£m)	86.54
Shares (m)	35.0
Market	London Main List
Broker	Mirabaud Securities
	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

Analyst

Yingheng Chen 020 7148 054

yc@hardmanandco.cor

R.E.A. Holdings (RE.)

The company is focused on the further planting of its significant land bank (108,000 ha) of which we expect some 37,600 ha to be planted by end 2015. REA is ambitious to plant a further 4,000 ha in 2016, but ultimately this will depend on a variety of factors including weather conditions and funding capacity.

On 17 December, REA issued a further £5m of 8.75% Sterling Notes 2020 at a price of £0.97 per £1.00 nominal amount. The £4.561m of gross proceeds raised will see net debt: equity reduce to circa 60%.

While the period 2012-2014 was impacted by a series of disputes with local communities, community relations now appear to be on a sounder basis, helped in part by the fact that 3,036 families are now drawing electricity from the electricity generating capacity installed alongside the group's mills, drawing energy from methane production from palm oil mill effluent (POME). Some 12,400 families are scheduled to be connected to REA sourced power and ultimately it is hoped that the mills will supply power directly into the national grid. The ability to generate and supply electricity provides REA with a new revenue source (we are forecasting a contribution of some $0.5m to revenues in 2015), which over time could become meaningful and important. It also underscores the company's efforts to produce palm oil sustainably and to valorise all aspects of its business operations.

The company has announced that it is seeking a strategic investor. In the context of a significant land bank, strong sustainability credentials and a low cost of production, it should be attractive to larger and perhaps integrated palm oil producers in the region.

REA's 9% cumulative preference shares price has been very weak throughout the last six months, and is now slightly over 70p.

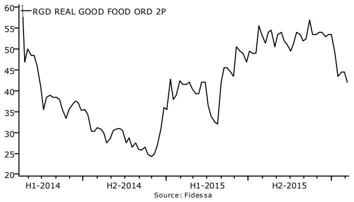
We note recent purchases of R.E.A. preference shares by connected parties.

Financial summary and valuation

Year End Dec	2013	2014	2015E	2016E	2017E
Sales ($m)	110.5	125.9	91.4	109.0	136.7
EBITDA ($m)	38.8	42.7	22.3	32.3	49.6
Operating profit ($m)	28.1	32.1	11.0	20.3	36.1
PBT ($m)	25.2	23.7	2.7	7.5	22.7
EPS (c)	15.8	40.3	(23.4)	(17.2)	13.1
DPS (p)	7.25	7.75	-	-	4.00
Net (debt)/cash ($m)	(164.4)	(179.2)	(206.1)	(195.4)	(206.1)
Net debt/EBITDA (x)	4.2	4.2	9.2	6.1	4.2
P/E (x)	8.3	3.3	-	-	10.0
Dividend Yield (%)	3.1	3.3	-	-	1.7
EBITDA Margin (%)	35.1	33.9	24.4	29.6	36.3
Planted Hectare (ha)	34,062	34,614	36,814	40,814	42,814
EV/Planted hectare* ($/ha)	10,935.0	11,188.2	11,250.3	9,886.6	9,674.6

Source: Hardman & Co Research

Food Producers



Source: Fidessa

Price (p)	**42.25**
Mkt cap (£m)	29.41
Shares (m)	69.60
Market	London AIM
Broker	Shore Cap
	www.realgoodfoodplc.com

Description: Specialist food manufacturing.

Real Good Food (RGD)

The trading update of 1st February caused us to downgrade FY16E by £2.5m to £2.7m underlying. The reported figure, at £10.8m profit, includes the May 2015 disposal of a sugar trading business. With the shares on just over 6x EV/EBITDA, and de minimis debt, the rating would appear to reflect scepticism about scope for future profits growth. Though we are currently suspending detailed forecasts for FY17E, we are confident of profits growth in that year, as the FY16E problems are highlighted not only as short term but also stemming from areas of the business more vulnerable on pricing. It is investing (expensed) to achieve the optimal operating platform from which to drive growth. We plan to reintroduce FY17E numbers prior to end March 2016.

- **1st February:** "The Board now expects that within the continuing business EBITDA will remain flat year on year, as this investment, when combined with other one-off events within the various business divisions, has led to a short term impact on margins." This implies H2 EBITDA at 150% of H1 achieved.
- **Strategy and outlook:** We estimate businesses in FY16E excluding Renshaw and Rainbow Dust Colours and pre the whole Group central overheads charge are losing a modest amount of money. The c.£60m sales in these lower margin businesses has scope to be profitable and do not compromise the Group.
- The Board states it is "confident however that the negative impact on margins is short-term." The majority of sales and the large majority of profits derive from business streams to specialist retailers, higher margin commercial, high street or high margin internet. There is a significant 'economic moat' around these.
- Traction from investment in the brands through marketing, through the ongoing enrichment of the mix of routes to market and into senior sales and marketing resource remains strong and is paying off. The weakness, we believe is more in areas such as multiple grocers and competitive markets.

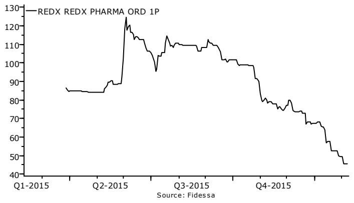
Financial summary and valuation

Year End Mar	2013	2014	2015	2016E	2017E
Sales	265.7	272.6	232.9	107.5	
EBITDA	10.0	2.7	1.1	5.0	
Operating profit	8.0	0.5	(1.2)	3.2	
PBT	6.5	(1.2)	(3.2)	2.7	
EPS (p)	7.0	(0.4)	(4.1)	2.6	
DPS (p)	-	-	-	-	No Estimates At Present
Net (debt)/cash (£m)	(25.0)	(31.3)	(30.1)	(2.0)	
Net debt/EBITDA (x)	2.5	11.6	27.4	0.4	
P/E (x)	6.1	-105.6	n.a.	n.a.	
EV/Sales (x)	0.2	0.2	0.3	0.3	
EV/EBITDA (x)	5.4	22.5	54.1	5.5	
FCF Yield (%)	-20.7%	3.7%	-21.1%	-13.6%	

Source: Hardman & Co Research

Analyst
Mike Foster 020 7148 0545
mf@hardmanandco.com

Pharmaceuticals & Biotech



Source: Fidessa

Price (p)	**44.95**
Mkt cap (£m)	28.28
Shares (m)	65.0
Market	AIM

Description: Redx Pharma is a drug discovery and development company formed in 2010, focused on creating best-in-class new drugs in the areas of cancer, infection, autoimmune and inflammatory disease. The companys work has been endorsed by partnerships with global pharmaceutical companies and the NHS.

Redx Pharma (REDX)

Redx is a drug discovery company, offering investors access to a new R&D model; not without risk, but one that is mitigated by the breadth, depth and focus given to its pipeline. It has developed a broad early stage preclinical pipeline focusing on cancer, immunology and anti-infectives, particularly microbial resistance – all considered "hot" areas of scientific and commercial interest – validated to an extent by six partnerships. Its Porcupine inhibitor has started IND-enabling studies with a view to commencing clinical trials by in the next 12 months is another example of the rapid progress of its discovery engine, and is likely to command plenty of external interest.

- **Strategy:** to develop potentially "best-in-class" or "first-in-class" therapeutics by focusing on well validated disease targets in therapeutic areas of significant commercial interest to big pharma/biotech. Redx is also seeking complementary assets and capabilities to accelerate growth and development.

- **Porcupine (PORC) inhibitor:** a 4th development candidate, recently added to its pipeline and targeting a cell signaling pathway that controls the spread and recurrence of cancer as well as resistance to other treatments, is likely to generate substantial external interest. Potentially a best-in-class PORC inhibitor.

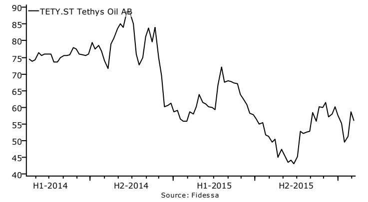
- **Valuation:** Our standard DCF approach to valuing the business is inappropriate given the preclinical pipeline. Recent industry benchmarks, however, point to the fact that the median price paid by big pharma/biotech for immune-oncology preclinical assets is $17m per target, with a further $357m of milestones.

- **Risks:** Clearly not without financial risk: a preclinical pipeline with traditionally high attrition rates and funding needs, but its strategy and breadth of portfolio reduces binary risk seen in single product companies. Also, clear precedent that pharma/biotech are willing to pay high prices for the right preclinical assets.

- **Investment summary:** Although the shares have drifted below the IPO price, partly with the sector but also as the market awaits evidence of further commercial partnerships, Redx offers the investor access to a highly versatile discovery engine, geared specifically towards clinically differentiating its assets to achieve potentially best-in-class and first-in-class status which in turn should translate into highly valuable assets.

Analysts
Martin Hall 020 7148 1433
mh@hardmanandco.com

Oil & Gas



Source: Fidessa

Price (SEK)	**56.00**
Mkt cap (MSEK)	1,990
Shares (m)	35.5
Market	First North, Stockholm
Broker	Remium
	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)

As per the fourth quarter 2015, Tethys Oil has changed its accounting principles with regard to valuation of underlift and allocation and the company's presentation of over and underlift positions to increase reporting transparency for its investors.

- Going forward, over and underlift positions will be valued at market value, as opposed to cost. Both over- and underlift will be now be presented within revenue instead of within Operating expense as was the previous accounting principle with the revenue aligned to follow the production performance during the reporting period.
- Historic financial data has been recalculated in line with the new accounting principles with the report for Q4 2015 set to be disclosed on 9 February 2016.
- The Company has scheduled a webcasted conference call the same day at 10.00 CET.
- Tethys' management have proved adept at managing in a difficult macro-economic climate for oil producers and investors should remember that the idea is to buy low and sell high. The foundations for capacity restraint are always being laid in the decline of existing global production. It is the savvy and strong companies that will capitalise on opportunity.
- Tethys Oil's Q4 2015 revenue was MSEK 222.
- Tethys Oil's share of Omani production, before government take was 997,904 barrels.
- The average oil price during the quarter was USD 47.9 per barrel.
- The report for the fourth quarter 2015 will be disclosed on 9 February 2016

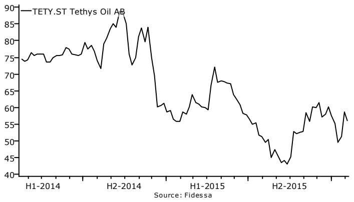
Financial summary and valuation

Year End Dec	2011	2012	2013	2014	2015
Sales (MSEK)	584	592	1,046	886	-
EBITDA (MSEK)	509	479	753		-
Operating Profit (MSEK)	336	285	404		-
PBT (MSEK)	314	240	350		-
EPS (SEK)	9.11	6.76	9.86		-
DPS (SEK)	-	-	-		-
Production, before government take (bbl)	1,345,854	1,663,069	2,765,654	3,539,631	-
Net sales, after government take (bbl)	776,248	850,926	1,464,228	1,805,056	-
Average Selling price $/bbl	110.35	106.63	103.9	58.1	-
P/E (x)	6.1	8.3	5.7		-
Cash TSEK	248	295	347		-
Shareholders Equity TSEK	860	1,100	1,675		-

Source: Hardman & Co Research

Analyst
Mark Parfitt 020 7929 3399
mp@hardmanandco.com

Pharmaceuticals & Biotech



Source: Fidessa

Price (p)	**15.8**
Mkt cap (£m)	119.6
Shares (m)	759.7
Market	AIM

Description: TRX is a UK-based medical devices company in regenerative medicine. Its patented decellularisation ('dCELL') technology removes DNA and other cellular material from animal/human tissue leaving an acellular tissue scaffold, not rejected by the body, which can then be used to repair diseased or worn out body parts. Launched DermaPure in US to treat chronic wounds and, potentially, other applications in sports medicine, heart valve replacement and vascular disease.

Tissue Regenix (TRX)

Tissue Regenix is no longer a R&D play. Its dCELL technology allows for the production of 'like-for-like' tissue specific, structure-preserving scaffolds that have been validated in multiple clinical settings. Following US launch of DermaPure, we expect a series of further product launches over the next two years in Sports Medicine and heart valve replacement, all substantial markets with significant unmet medical need. The Company continues to build long term value despite short term monthly cashburn of c.£0.8m. A NPV of 42p is driven by 3 core product areas; the true value of the platform & product streams has still to be elucidated.

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

- **Commercial traction building:** Primary focus is on the commercial roll-out of DermaPure in the US although near term catalysts include the 2016 launch of OrthoPure XM/XT for the treatment of meniscal tears and tendon repair in Europe as well as the US launch of OrthoPure human tissue variants.

- **Valuation:** Key milestones driving near-term valuation include the 510(k) approval of SurgiPure XD, evidence of revenue momentum and surgeon adoption of DermaPure as well as the EU launches of OrthoPure XM/XT and CardioPure HV with commercial partners.

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

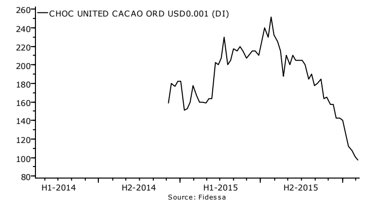
- **Investment summary:** TRX is building long term value with three clear value drivers: wound care in commercialisation, sports medicine in regulatory phase, and cardiac in late clinical, all the time de-risking the business for the investor as well as any potential acquirer. As with many technology rich/platform companies, the inherent value lies in terminal value of such cashflows. The probability adjusted NPV is 42p.

Analysts
Martin Hall 020 7148 1433
mh@hardmanandco.com

Financial summary and valuation

Year end Jan (£000)	2014	2015	2016E	2017E	2018E	2019E
Sales	49	6	100	494	2,067	6,073
Underlying EBIT	-4,330	-6,483	-8,189	-10,013	-12,443	-13,350
Reported EBIT	-4,412	-6,577	-8,369	-10,203	-12,653	-13,580
Underlying PTP	-3,890	-6,209	-8,021	-9,890	-12,280	-13,279
Statutory PTP	-3,972	-6,303	-8,201	-10,080	-12,490	-13,509
Underlying EPS (p)	-0.5	-0.9	-1.0	-1.2	-1.5	-1.6
Statutory EPS (p)	-0.6	-0.9	-1.2	-1.2	-1.5	-1.6
Net (debt)/cash	24,206	18,483	10,257	20,450	8,814	15,825
Shares issued	3	8	5	18,972	0	20,000
P/E (x)	-	-	-	-	-	-
EV/sales (x)	-	-	-	-	-	-

Food Producers



Source: Fidessa

Price (p)	
Mkt cap (£m)	
Shares (m)	18.60
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.

Analyst

Yingheng Chen 020 7148 0547

yc@hardmanandco.com

United Cacao Limited SEZC (CHOC)

On 27th Oct UCL completed a subscription for $6.08m of 7.00% secured convertible bonds, maturity date of 30th Jun '19. Also on 27th Oct, UCL announced that it had completed an equity placing in Peru to new institutional and family office investors to raise $1.28m before expenses. The net proceeds of the Bond Issue, in conjunction with the Company's existing cash resources (including that cash received from the Equity Placing), will be used to:

- finance the ongoing planting of UCL's cacao plantations
- partly fund the roll-out of the local out grower programme
- provide working capital.

The Convertible Bond Issue – UCL announced that it had secured commitments for $6.08m of the total $10m fundraising from new and existing investors ("Tranche One"), including commitments from the Chairman and CEO, Dennis Melka, to subscribe for $1.075m and from Non-Executive Director, Constantine Gonticas, to subscribe for $0.2m. UCL and Mr. Melka have also entered into a call option arrangement pursuant to which the independent Directors may call upon Mr. Melka to subscribe for up to a further $2m of the Bonds ("Tranche Two").

At maturity, Bondholders may choose to either convert at a conversion price of US$3.40/share (approx. 222p) or to redeem in cash. The Bond Issue is conditional on admission to trading of the Bonds on the ISDX Growth Market by 30 Nov '15 (Tranche 1) and 14 Jul '16 (Tranche 2).

The Equity Placing – The placing in Peru to raise $1.28m, saw the issuing of 474,074 new ordinary shares at a placing price of $2.70 (approx. 176p) for an effective discount of approx. 7.4% to the closing middle market price (190p) on 26 Oct '15 (and a 35% premium to the price per share at Admission on 2 Dec '14 (128p)). Dennis Melka subscribed for 4,074 Shares in the Placing. Following the Equity Placing, Mr Melka is directly and indirectly interested in 5.2m Ordinary Shares representing 27.46% of UCL's currently issued share capital.

UCL seeks to be the world's largest and lowest cost producer of cacao when the planting of its owned estates is completed in 2017. The global supply and demand profile for cocoa remains tight with more than 71% of supply comes from West Africa. ICCO is anticipating that global supply will total c. 4.16m MT in 2014/15 as compared with c. 4.37m MT in 2013/14. Against this background cocoa price has been trading between $2,600 and $3,375/mt in the past 12 months.

Financial summary and valuation

Year End Dec	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)		
DPS (p)	-	-	-	No Estimates At Present	No Estimates At Present
Net (debt)/cash ($m)	(16.4)	(10.4)	(1.0)		
Net debt/EBITDA (x)	-	-	-		
P/E (x)	-	-	-		
Dividend Yield (%)	-	-	-		
EBITDA Margin (%)	-	-	-		
Planted Hectare (ha)	556	na	na		

Source: Hardman & Co Research

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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

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Hardman Team

Management Team

+44 (0)20 7929 3399

John Holmes	Chairman	jh@hardmanandco.com	+44 (0)207 148 0543
Keith Hiscock	CEO	kh@hardmanandco.com	+44 (0)207 148 0544

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
Neil Pidgeon	nrp@hardmanandco.com	+44 (0)207 148 0546

Analysts

+44 (0)20 7929 3399

Agriculture

Doug Hawkins	dh@hardmanandco.com
Yingheng Chen	yc@hardmanandco.com
Meghan Sapp	ms@hardmanandco.com

Bonds

Brian Moretta	bm@hardmanandco.com

Building & Construction

Tony Williams	tw@hardmanandco.com
Mike Foster	mf@hardmanandco.com

Consumer & Leisure

Mike Foster	mf@hardmanandco.com
Steve Clapham	sc@hardmanandco.com

Financials

Brian Moretta	bm@hardmanandco.com

Life Sciences

Martin Hall	mh@hardmanandco.com

Media

Derek Terrington	dt@hardmanandco.com

Mining

Ian Falconer	if@hardmanandco.com

Oil & Gas

Stephen Thomas	st@hardmanandco.com
Mark Parfitt	mp@hardmanandco.com

Property

Mike Foster	mf@hardmanandco.com

Services

Mike Foster	mf@hardmanandco.com

Social Impact

Mike Foster	mf@hardmanandco.com

Special Situations

Steve Clapham	sc@hardmanandco.com
Paul Singer	ps@hardmanandco.com

Technology

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