Hardman Monthly – March 2016

Feature article – Pharmaceutical industry

This month's feature article is the first publication of the top 15 drug companies in the 2015 global industry ranking and how this has changed over the last decade. In trying to analyse the changes that have taken place, we have looked at different strategies used by management teams. Many companies are featured, but there is emphasis on GlaxoSmithKline (GSK), AstraZeneca (AZN) and Shire Pharmaceuticals (SHP). In addition, we have analysed how drugs derived from antibodies have driven market growth and now represent just over 10% of annual industry sales.

Latest research

Date	Company/sector	Title	Team
2 Mar	Alliance Pharma	Acquisition impact and future growth opportunity	MH
24 Feb	Allergy Therapeutics (AGY)	Development progress	MH
23 Feb	Avacta (AVCT)	Affimers – next generation therapeutic platform	MH
2 Feb	Redx Pharma (REDX)	Pipeline progress – Porcupine inhibitor	MH
15 Feb	Collagen Solutions (COS)	Secure base, and opportunities intact	MH
16 Feb	City of London Investment Group (CLIG)	First half 2016 results	BM
2 Feb	Par Fund Management	Syndicate EIS/Innovation EIS Funds	BM
11 Feb	Primary Health Properties (PHP)	100% dividend cover target achieved in 2H 2015	MF
3 Feb	Retail Bonds	Review No.11	BM
2 Feb	Advanced Oncotherapy (AVO)	Chine – An emerging opportunity	MH
2 Feb	Real Good Food Company (RGF)	Profits downgraded bust still growing FY16E, FY17E	MF

Source: Hardman & Co Research

Forthcoming events

Date	Event
8 March	Allergy Therapeutics (AGY) interim results
8 March	St Ives (SIV) Interim results
15 March	Futura Medical (FUM) 2015 Final results
15 March	Hardman Investor Forum – University of Liverpool, London
23 March	Burford Capital (BUR) 2015 Final results
7 April	Alliance Pharma (APH) 2015 Final results
April	Grafenia (GRA) Trading Update
April	Real Good Food (RGD) Trading Update

Source: Hardman & Co Research

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Pharmaceutical industry

2015 Global ranking

The annual company reporting period is always exciting and throws up some interesting statistics

Although the focus of Hardman & Co is generally on companies with micro- to mid-sized market capitalisations, it is important to understand how those companies are faring within the industry in which they operate. Given that all the major pharmaceutical companies have reported 2015 results during the last month, we thought this would be an opportune time to update the global ranking and see how various companies' strategies over the last decade have played out. As always, it has thrown up some very interesting findings!

Moreover, when we write research reports on our contracted companies, it is important to outline the commercial market opportunity that the often disruptive technology of the small company is targeting. While it usually constitutes only a very small part of the overall report, the data within those 1-2 pages are often dynamite.

Modest growth in the global pharmaceutical market in 2015 was offset on USD translation…

…to US$786bn (from $812bn)

Pharmaceutical sales are defined as anything that requires a prescription (Rx) and excludes OTC/consumer products. However, it does include generic drugs. Market shares have been calculated from initial estimates that the global prescription drug market was valued at $786bn in 2015. All our data, going back as far as 1988, have been complied consistently and are based on ex-factory sales reported by companies and converted to US$ using average exchange rates. Therefore, it is very robust.

Global highlights

2015 has been a very tough year for the pharmaceutical industry worldwide. Although we estimate that the industry saw modest 4% underlying growth, this was eroded in dollar terms by the strength of the USD against most other currencies. Notwithstanding that, no less than eight of the top 10 drug companies in the world reported lower sales in 2015, many being hit by the loss of patents on major drugs.

- **Novartis** remains the top ranked pharmaceutical company worldwide for the third year running with 5.66% market share. Whereas most of the industry has focused its activities on patented (branded) drugs, the strategy of Novartis has been to retain and develop a strong presence in generics and biosimilars which has helped to maintain its #1 position.
- **Gilead Sciences** was the only company to make major gains to become the sixth largest company in the world with 4.09% market share, rising from #9 in 2014 and #15 in 2013. This move has been driven entirely by the success of its hepatitis C franchise and, even though competition has arrived, many of the new drugs still need to be used in combination with Gilead's drugs.
- **Teva** has also been a steady riser over the years. Initially, this was on the back of multiple acquisitions and consolidation of generic businesses. However, with its strong cashflow, the company also invested in branded pharmaceuticals, particularly in the field of multiple sclerosis, which has borne fruit and now represents 47% of product sales.
- **Novo-Nordisk** entered the top 15 companies in the world in 2015 for the first time. Unlike many of its competitors it has achieved this largely through organic growth and focus on a single therapeutic franchise – treatment of diabetes. Its success has clearly been helped by the worldwide spread of obesity and associated increase in diabetes.

Pharmaceutical industry – Global ranking 2000-2015

#	2000	Share	2005	Share	2010	Share	2015	Share
1.	GlaxoSmithKline	6.85%	Pfizer	8.33%	Pfizer	7.43%	Novartis	5.66%
2.	Pfizer	6.82%	GlaxoSmithKline	6.55%	Novartis	5.60%	Pfizer	5.55%
3.	Merck & Co	5.36%	Sanofi-Aventis	6.54%	Merck & Co	5.43%	Roche	4.94%
4.	AstraZeneca	4.66%	Novartis	4.81%	Sanofi-Aventis	5.09%	Sanofi-Aventis	4.38%
5.	Aventis	4.48%	AstraZeneca	4.49%	GlaxoSmithKline	4.93%	Merck & Co	4.43%
6.	Bristol-Myers Squibb	4.01%	Merck & Co	4.47%	Roche	4.85%	Gilead Sciences	4.09%
7.	Johnson & Johnson	3.61%	Johnson & Johnson	3.30%	AstraZeneca	4.43%	Johnson & Johnson	4.00%
8.	Novartis	3.50%	Roche	4.22%	Johnson & Johnson	3.06%	GlaxoSmithKline	3.46%
9.	Pharmacia	3.27%	Bristol-Myers Squibb	2.94%	Lilly	2.87%	AstraZeneca	3.01%
10	Lilly	3.08%	Abbott Labs	2.88%	Abbott Labs	2.71%	Abbvie	2.91%
11.	Roche	2.86%	Lilly	2.77%	Bristol-Myers Squibb	2.66%	Amgen	2.66%
12.	Wyeth	2.76%	Wyeth	2.53%	Amgen	2.00%	Teva	2.28%
13.	Schering-Plough	2.52%	Amgen	2.32%	Takeda	1.97%	Lilly	2.13%
14.	Takeda	2.37%	Takeda	2.02%	Teva	1.93%	Bristol-Myers Squibb	2.11%
15.	Abbott Labs	1.76%	Boeh. Ingelheim	1.74%	Bayer	1.86%	Novo-Nordisk	2.04%

Source: Hardman & Co Life Sciences Research

The pharmaceutical industry is, ultimately, a cyclical industry based around patent protection. On average it takes approximately 10 years from first discovery to launch, leaving a further 10 years until patent expiry for the company to obtain a return on its investment. Generally, once the patent has expired, often after an element of life-cycle management, sales collapse over the following two years, rendering the drug effectively worthless. Therefore, it is the responsibility of management to ensure a steady flow of drugs through the company's research pipeline. However, this is easier said than done.

Eight of top 10 companies reported sales declines last year

This was exemplified in 2015 with 80% of the top 10 ranked companies reporting sales declines. In most cases this was due to the loss of patent on a major drug and, even though new products have been launched, the commercial traction is insufficient to offset the generic competition.

Strategy is key

The table above shows the changes in the top 15 ranked drug companies every five years over a 15 year period. While some movements are the direct result of the introduction of successful new drugs, most have been the consequence of loss of patent protection and a strategy of consolidation, removing costs and protecting operating margins.

History suggests that managements should invest much more in new technologies

Strategy has been all important. Management of the major players of 10 and 20 years ago often took the easy option of acquiring companies with established products, with the sole intention of reducing costs. Instead, they perhaps should have taken the riskier option of acquiring new technologies in the hope of improving the product pipeline. Ironically, they probably thought that the risker strategy also put their jobs at risk, which many ended up losing anyway!

Gilead Sciences

Undoubtedly, the greatest success has been Gilead, a company that has focused its research and development in the field of anti-viral drugs. In 2000, the company had sales of just US$150m and it was ranked #49 worldwide. In just 10 years, Gilead had risen to #21 globally with sales of US$7bn. In 2015, Gilead rose to #6 worldwide with sales of US$32bn. The success of the company is even more apparent in the US (see table, page 5) where the company consolidated its position as the leading drug manufacturer, a position it reached in 2014, with around 7.0% market share.

GlaxoSmithKline

GSK has fallen from #1 to #8 in a decade…

How the mighty has fallen! It seems incredible that GlaxoSmithKline was the #1 ranked drug company in the world in 2000 with sales of US$22bn giving it 6.8% market share. Since then its position has steadily eroded and, whilst sales have risen to USD27bn (CAGR 1.2%), this is well below the 5.9% compound growth rate for the global industry. In 2015, GSK dropped to #8 in the world with just 3.5% market share.

…reflected by a £20bn fall in its market capitalisation…

The company's strategy has been to believe in its own R&D pipeline, assuming that the new drugs in development would be sufficient to offset the loss of patents on maturing products. Although management and the business development team at GSK has undoubtedly looked at many new technologies over this period, it has rarely taken the plunge and the company has suffered from its inherent "Not invented here" syndrome to the detriment of its industry standing and stock market valuation.

…after having invested ca.£37bn (50% of the market cap!) in R&D

GSK has failed to buy into and embrace new technologies

This is superbly illustrated by the statistics in the following table. At the end of December 2005, GSK commanded a stock market valuation of £85.5bn. Despite investing and writing off -£36.9bn in R&D over a decade, its market capitalisation has fallen to £65.9bn. Much of this underperformance has to be due to decisions regarding R&D and business development made 10-20 years ago.

Changes in market capitalisation 2005-2015

	--------- 2005 -------		--------- 2015 -------		Mkt cap	R&D
	Rank	Mkt cap	Rank	Mkt cap	Δ	2005-15
GlaxoSmithKline	#2	£85.5bn	#8	£65.9bn	-£19.6bn	-£36.9bn
AstraZeneca	#5	£44.7bn	#9	£58.4bn	+£13.7bn	-£30.5bn
Shire	#41	£3.7bn	#28	£27.8bn	+£24.2bn	-£4.8bn
Shire + Baxalta			*#19	*£45.7bn	+£42.1bn	

**Assuming conclusion of merger with Baxalta*
Prices taken at close of business on 31st December
Source: Hardman & Co Life Sciences Research

Shire Pharmaceuticals

On the other hand, Shire's buy-and-build approach has been very rewarding

In contrast, over the same period of time, Shire has embarked on a strategy of buy-and-build, adding new therapeutic areas and technologies through licensing deals and acquisitions that complemented and added to those that it already possessed. In 2005, Shire was ranked a lowly #41 in world pharmaceuticals and had a stock market value of £3.7bn – 1/23rd (4.3%) the size of GSK. On a stand-alone basis, over the last decade Shire's buy-and-build strategy has added £24bn of value with only $3bn/£2bn coming from share issues to fund its M&A activity.

On the assumption that its recently announced deal with Baxalta concludes, the combined entity would enter the top 20 drug companies worldwide and have a market capitalisation of around £46.0bn – making it about ⅔ the size of GSK.

AstraZeneca

AZN looks poised to benefit from its investments in antibodies and vaccines

AstraZeneca sits between the two. On the one hand, the merger of Astra with Zeneca was partly defensive and allowed the removal of costs; on the other hand, AZN has bought into new technologies that it did not have in-house and that were likely to change the landscape for pharmaceuticals. In May 2006, it bought Cambridge Antibody Technologies to give it a strong position in the emerging field of therapeutic antibodies and it followed this in June 2007 with the acquisition of MedImmune which took the company into biologics and vaccines. It has supplemented these bigger deals with some in-licensing of products. The importance of its move into antibody technology can be found on page 7. Consequently, AZN's performance has been positive.

Focus on the US market

Big difference in outcomes from offensive (new technology) moves…

The last decade is ideal in highlighting the different strategies employed by company management teams. The following table and chart shows the ranking of the top 12 companies by US Rx drug sales in 2015 compared to 2005. It also highlights the change in market share over this period of time. It is easy to observe the positive moves made by **Gilead** (hepatitis drugs), **Teva** (generics/M&A) and **Roche** (antibody-derived cancer drugs). In contrast, the defensive M&A moves to create 'fat' and then reduce costs by **Pfizer** (-4.8% share), **GlaxoSmithKline** (-4.6%) and **Merck & Co** (-1.3% share) are notable.

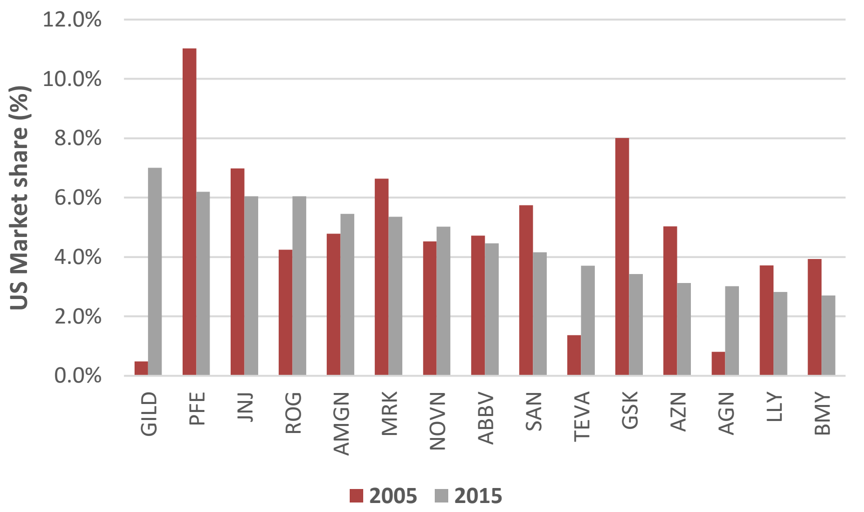
…versus defensive M&A

Pharmaceutical industry – 2015 US ranking

----US Rank ----			Sales	------------- Market share ------------		
2005	2015	Company	CAGR	2005	2015	Δ
27	1	Gilead Sciences	35.7%	0.48%	7.01%	+6.53%
1	2	Pfizer	-1.9%	11.03%	6.20%	-4.83%
3	3	Johnson & Johnson	2.4%	6.99%	6.05%	-0.94%
10	4	Roche	7.6%	4.25%	6.04%	+1.79%
7	5	Amgen	5.3%	4.78%	5.45%	+0.67%
4	6	Merck & Co	1.7%	6.64%	5.36%	-1.28%
9	7	Novartis	5.0%	4.53%	5.03%	+0.50%
8	8	AbbVie	3.3%	4.72%	4.46%	-0.26%
5	9	Sanofi-Aventis	0.6%	5.74%	4.16%	-1.58%
17	10	Teva	14.8%	1.37%	3.71%	+2.34%
2	11	GlaxoSmithKline	-4.6%	8.01%	3.43%	-4.58%
6	12	AstraZeneca	-0.9%	5.03%	3.13%	-1.90%
20	13	Allergan	18.7%	0.80%	3.01%	+2.21%
12	14	Lilly	1.1%	3.72%	2.82%	-0.90%
11	15	Bristol-Myers Squibb	0.1%	3.93%	2.70%	-1.23%
		US Rx market	**3.9%**			

Source: Company reports; Hardman & Co Life Sciences Research

US ranking 2005-2015 – Rx market share winners & losers



Source: Hardman & Co Life Sciences Research

Investment in R&D remains strong

Given the declines in market share, it would be a natural assumption to think that, in the absence of new drugs coming through the pipeline, the major players have eased back on their R&D investment. In reality, the opposite is true. In 2005, the top 15 players spent $48.2bn (16.8% of Rx sales) on R&D; by 2015, this had risen to $81.8bn (20.8% of Rx sales). A focus on R&D investment will be the subject of a future research note.

The rise of antibody-derived therapeutics

There are 60 approved drugs derived from antibodies…

In 2015, drugs derived from monoclonal antibodies have grown to represent 10.2% of the entire global market for prescription drugs. The first – ReoPro (abciximab) was launched in 1995 and there are now 60 regulatory approved monoclonal antibody drugs on the market with sales totalling just over $80bn in 2015. The table below shows the ranking of the top 10 drugs by ex-factory sales, with Humira (adalimumab) being the top selling drug in the world last year. The table also shows that drugs derived from antibodies have generated cumulative sales since launch approaching a staggering $560bn! These figures are expected to rise in coming years given that the FDA approved eight antibody derived drugs in 2015 and has a similar number under review in 2016. Therefore, the therapeutic opportunity is enormous.

…including the biggest selling drug in the world with annual sales of $14bn…

Drugs based on monoclonal antibodies cover a big spread of diseases and have revolutionised the treatment of autoimmune disease such as arthritis (rheumatoid and psoriatic) and cancer. While arthritis drugs are the biggest sellers, 35 (58%) of the 60 approved drugs are for the treatment of different forms of cancer. However, it is thought that the currently approved, and waiting for approval, drugs represent the success of the first generation of antibody-based products and that a new generation of engineered antibodies based on a variety of biotech platforms is required to produce new therapeutics with enhanced mechanisms of action and/or improved pharmaco-kinetics and safety profiles:

- Bi-specific and Tri-specific antibodies
- Antibody-drug conjugates
- Alternative technologies
- Antibody and non-antibody scaffolds

….and cumulative antibody drug sales now approaching $560bn!

From the following table it is clear that certain companies stand out, having embraced this new technology 20 years ago. Roche was one of the first to buy-in to biotechnology through its innovative deal with Genentech. Novartis and Johnson & Johnson have also been active in bringing in new technologies. The rewards of these investments are demonstrable. Over the next few years, given recent approvals and anticipated approvals, we would expect to see Bristol-Myers Squibb and AstraZeneca featuring more in this list. The question for companies and investors alike is, therefore, what is next the next technology that companies should be focusing on?

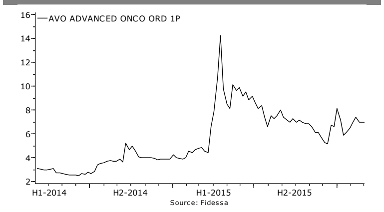
Top 10 antibody drugs – 2015

Rank	Drug	Generic name	Company	2014 ($m)	2015 ($m)	Growth (%)	Cumulative ($m)
1	Humira	adalimumab	AbbVie	12,543	14,012	+12%	78,609
2	Rituxan/MabThera	rituximab	Roche	7,541	7,333	-3%	73,539
3	Avastin	bevacizumab	Roche	7,013	6,948	-1%	57,205
4	Herceptin	trastizumab	Roche	6,858	6,796	-1%	59,756
5	Remicade	infliximab	Johnson & Johnson	6,868	6,561	-4%	59,532
6	Gleevec/Glivec	imatinib	Novartis	4,746	4,658	-2%	46,612
7	Soliris	eculizumab	Alexion Pharma	2,234	2,590	+16%	9,546
8	Stelara	ustekinumab	Johnson & Johnson	2,072	2,474	+19%	8,206
9	Lucentis	ranibizumab	Novartis	2,441	2,060	-16%	15,395
10	Orencia	abatacept	Bristol-Myers Squibb	1,652	1,885	+14%	9,170
				76,635	**80,513**	**+5%**	**558,382**

Source: Company reports; Hardman & Co Life Sciences Research

Company Research

Pharmaceuticals & Biotech



Source: Fidessa

Price (p)	**7.0**
Mkt cap (£m)	99.3
Shares (m)	1418.3
Market	London AIM

www.advancedoncotherapy.com

Developing next generation proton therapy systems for the use in radiation therapy of cancers. The first system is expected to be installed in Harley Street, London in 2016-17 and treating patients in 4Q 2017; to be operated through a joint venture company with CircleHealth.

Advanced Oncotherapy (AVO)

AVO is focused on delivering a more affordable, novel proton-based radiotherapy system, based on a technology originally developed and tested at the world renowned CERN facility in Switzerland. Commercial momentum is building, having recently secured a second purchase order in China, formed a JV with Circle to operate potentially the first proton therapy facility in the UK (Harley Street, London) and further expanding its order book which amounts potentially to some $480m. AVO's system has many attributes (affordability, modularity, versatility) that should appeal to the growing healthcare demands of China, amongst others.

- **Thales agreement**: AVO signed last month an industrialisation agreement with Thales for its proprietary LIGHT system. Thales has the knowledge of RF energy equipment and the resources to assist AVO in the full commercial roll-out of the LIGHT system from its first, flagship, Harley Street site into full production.

- **Directorate changes:** AVO announced recently changes in responsibilities at Board level. The Executive Chairman is additionally taking on the role of CEO, the CFO has also been given responsibility for operations (COO), and the former CEO has been given executive responsibility for Business Development.

- **Valuation:** With two system sales, a potential order book of 12 systems ($480m+) and the capacity to produce up to 30 systems p.a., operational momentum is building. We have not altered our forecasts. Timing of revenues from this purchase order is not yet clear but 1st milestones anticipated in 2016.

- **Risks:** Delays to completing LIGHT installation in Harley Street in 2017 and first patient treatment in 4Q 2017 – both mitigated by partnership supplier network, and the small size relative to its principal competitors which impacts potentially on vendor financing capability as well as external perceptions.

- **Investment summary:** AVO is entering a market on the cusp of a steepening adoption curve, not least in China, with a PT solution that is unique with respect to its competitors and addresses the needs of all key stakeholders. The Company has sufficient cash to achieve its near term goal of first patient treatment in 2017 beyond which additional capital may be required.

Financial summary and valuation

Year end Dec (£m)	2013	2014	2015E	2016E	2017E	2018E
Sales	45.3	43.5	48.2	96.0	99.8	103.7
Operating profit	13.3	11.2	15.9	25.3	28.9	30.9
Reported pre-tax profit	12.1	10.2	14.9	22.2	26.2	28.8
Underlying EPS (p)	4.0	3.3	3.4	4.2	4.5	4.9
Reported EPS (p)	3.6	3.2	4.3	3.6	4.3	4.7
DPS (p)	0.9	1.0	1.1	1.2	1.3	1.5
Net (debt)/cash	-25.2	-21.1	-74.5	-67.1	-56.4	-41.4
Net debt/EBITDA (x)	1.7	1.6	5.4	2.3	1.8	1.3
P/E (x)	13.2	15.2	11.1	13.2	11.2	10.2
EV/Sales (x)	5.5	5.6	6.2	3.0	2.8	2.6
EV/EBITDA (x)	17.1	18.7	21.6	10.1	9.1	8.1
Dividend Yield (%)	1.9	2.1	2.3	2.5	2.8	3.0

Source: Hardman & Co Research

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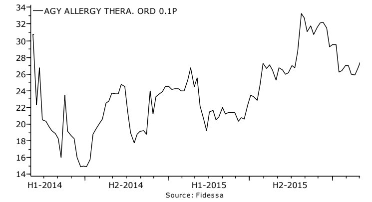
Financials



Source: Fidessa

Price (p)	**48.0**
Mkt cap (£m)	224.7
Shares (m)	468.2
Market	London AIM
	www.burfordcapital.com

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

Allergy Therapeutics (APH)

AGY is a long-established specialist in the prevention, diagnosis and treatment of allergies. It has an underlying profitable and cash generative business despite its lead product being available only on a 'Named Patient' basis in Europe. During the last month, AGY announced that recruitment into an important dose selection study in the US has completed. In addition, the company has added to its long-term offering by licensing in virus-like particle technology which it will develop into a product to treat peanut allergy. More information is likely to be released with its interim results, which are due 8th March.

- **Strategy:** AGY is a fully integrated pharmaceutical company focused on the treatment of allergies. There are three parts to its growth strategy: approval of its lead product, particularly in the US; geographical expansion of its product portfolio; active participation in industry consolidation.

- **Trial update:** In the second (G204) of three important GrassMATAMPL trials needed for FDA approval as a biological to treat grass allergy in the US, the company announced that the 250 patients have been recruited. This important dose selection study looks set to report results around the end of Q2 2016.

- **Interims:** The company announced in January that underlying revenue growth was 12% in the traditionally strong first half of fiscal 2016. Given that a large proportion of sales are in Europe, on a reported basis, sales are likely to come in around £29.5m (£28.2m; +4.5%), due to weakness of the €uro.

- **Profitability:** Management has been investing in sales and marketing to build position and market share ahead of the full marketing approval of Pollinex Quattro (2019). Therefore, trading margins are likely to be slightly down in 1H'16. We expect this investment to continue in 2H'16 and into 2017.

- **R&D:** The emphasis of the group is to undertake and complete the required trials to get its grass allergy product approved as a biological in both Europe and the US. The safety trial (G102) was completed in 4Q'16 and the dose selection trial (G204) is fully recruited and likely to report at the end of 2Q'16. AGY raised £20m/$30m last year to pay for these, which is held on deposit in USD.

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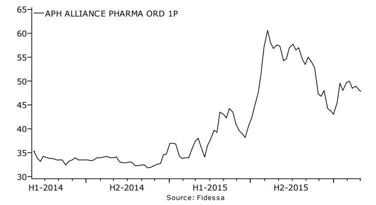
Financials



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Alliance Pharma (APH)

Alliance Pharma has developed through a series of 28 acquisitions as part of a buy and build strategy, culminating in the most recent £127.5m acquisition of 27 primarily dermatology and woundcare products and assets from Sinclair IS Pharma. Not only is this acquisition doubling the size of the company and enhancing EPS by 14%, it should provide the foundations of a more internationally oriented business that can more easily exploit the growth opportunities of its existing products (eg. Hydromol, MacuShield, Diclectin) as well as presenting itself as a credible partner for attracting in–licensing/M&A opportunities.

- **Acquisition – largest to date:** The acquisition of 27 products and related assets for £132.2m (inc. £4.7m inventory) represented a step change in the scale of its ambition. Funded by way of a Vendor Placing raising £83.5m (gross) including a £5m over-allotment option, and the draw-down of £51m (net) of Loan Notes.

- **Strategic rationale:** This acquisition accelerates growth – adding 14% to EPS-short-term – and sustains the growth vs. bedrock sales model of APH. It also internationalises the business, providing a launch platform for key APH drugs; and more attractive for corporate development – both in-licensing and M&A.

- **Outlook:** We have upgraded our forecasts to reflect the acquisition with FY'16 sales and EBITDA almost doubling to £96m and £28.8m, respectively. We have increased EPS forecasts by 14% to 4.2p (previous 3.7p). Our forecasts do not include any contribution from Diclectin which should launch in the UK in 2016.

- **Risks:** Doubling the size of the business creates potential integration risk. However, extensive planning, human resource reallocation and the provision of transitional services with the Vendor should help mitigate this. Individual product risk (eg Nu-Seals) now becomes less meaningful.

- **Investment summary:** The shares are trading on a 2016 PE of 13.2x with a CAGR growth rate of ca.9%. With a dividend yield of 2.5% (2016E), cover of 3.3x, it has the capacity to pursue its progressive dividend policy. After a period of no/low EPS growth the outlook is much more favourable, with the prospect of including Diclectin into forecasts once clarity on timing is better understood.

Financial summary and valuation

Year end Dec (£m)	2013	2014	2015E	2016E	2017E	2018E
Sales	45.3	43.5	48.2	96.0	99.8	103.7
Operating profit	13.3	11.2	15.9	25.3	28.9	30.9
Reported pre-tax profit	12.1	10.2	14.9	22.2	26.2	28.8
Underlying EPS (p)	4.0	3.3	3.4	4.2	4.5	4.9
Reported EPS (p)	3.6	3.2	4.3	3.6	4.3	4.7
DPS (p)	0.9	1.0	1.1	1.2	1.3	1.5
Net (debt)/cash	-25.2	-21.1	-74.5	-67.1	-56.4	-41.4
Net debt/EBITDA (x)	1.7	1.6	5.4	2.3	1.8	1.3
P/E (x)	13.2	15.2	11.1	13.2	11.2	10.2
EV/Sales (x)	5.5	5.6	6.2	3.0	2.8	2.6
EV/EBITDA (x)	17.1	18.7	21.6	10.1	9.1	8.1
Dividend Yield (%)	1.9	2.1	2.3	2.5	2.8	3.0

Source: Hardman & Co Research

Analyst

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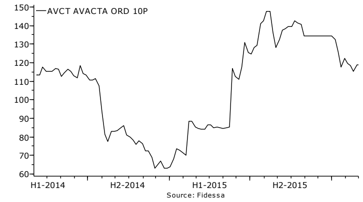
Financials



Source: Fidessa

Price (p)	**119.0**
Mkt cap (£m)	80.3
Shares (m)	67.5
Market	London AIM

www.avacta.com

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

Avacta (AVCT)

Avacta is a life science company providing high quality and highly specific tools to the biopharmaceutical industry to help in the diagnosis and treatment of humans and animals. The group's Affimer technology is a revolutionary alternative to the established technology, antibodies, which dominates the drug industry despite its limitations. During 2015 Avacta focused all activities on the commercialisation of Affimers initially via a bespoke service and an on-line catalogue, with a longer-term view to develop its own bio-therapeutics for out-licensing. There is a clear mismatch between the EV of ca.£50m and the long-term potential of Affimers.

- **Strategy**: To commercialise the Affimer technology, initially by providing Life Scientists with high quality, powerful bespoke tools to accelerate the understanding of disease and improve diagnosis and treatment of humans and animals. Longer-term, Avacta aims to develop its own proprietary therapeutics.
- **Commercial opportunity:** Antibody technology is the accepted 'gold standard' in terms of research, diagnostic and therapeutic tools and have combined markets in excess of $80bn per annum. Affimers may represent an important additional tool in the armoury especially where antibodies have limitations.
- **New grant funding:** Avacta has been awarded a grant, in conjunction with the Mary Leon Centre at MRC Harwell, by the National Centre for the Replacement, Refinement & Reduction of Animals in Research to develop novel Affimer reagents with the potential to reduce the number of animals used in research.
- **Risks:** Although Affimers have significant advantages over traditional antibody technology, the customer base might take time to realise these advantages and adapt to a new disruptive technology. Avacta is minimising this risk by initially focusing on areas where antibodies are unavailable or perform poorly.
- **Investment summary:** The enterprise value of Avacta does not reflect the value that big pharma is prepared to pay for new technologies and assets. The median up-front paid is US$17m and US$40m for pre-clinical and Phase I assets respectively. These figures were exemplified superbly by the deals that Molecular Partners has secured for its comparable DARPin technology.

Financial summary and valuation

Year end July (£m)	2013	2014	2015	2016E	2017E
Sales	2.70	3.18	1.81	2.15	3.02
EBITDA	-1.74	-1.33	-2.34	-3.30	-3.81
Underlying EBIT	-1.83	-1.86	-2.91	-4.06	-4.57
Reported EBIT	-1.87	-2.07	-5.57	-4.36	-4.90
Underlying PBT	-1.80	-1.83	-2.89	-3.85	-4.40
Statutory PBT	-1.85	-2.04	-5.54	-4.15	-4.73
Underlying EPS (p)	-4.67	-3.07	-4.50	-4.68	-5.11
Statutory EPS (p)	-4.82	-3.57	-9.84	-5.13	-5.59
Net (debt)/cash	0.58	11.48	7.33	21.00	12.61
Shares issued	0.00	14.54	0.02	20.79	0.00
P/E (x)	nm	nm	nm	nm	nm
EV/sales (x)	nm	nm	nm	nm	nm

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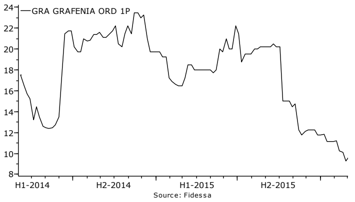
Support Services



Source: Fidessa

Price (p)	**10.40**
Mkt cap (£m)	4.78
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)

The anticipated trading update was released on 24th February. Trading conditions are increasingly difficult in traditional print. Clearly the results in the year just ending will be poor. Expansion in web design and services continues. We had some time previously suspended current year estimates and would highlight the Grafenia story being about its successful progressive repositioning. There are now 50 Nettl web studios. Most are through printing.com network and Grafenia's Marquetspace clients.

- Following an external search, Peter Gunning, the CEO designate, has been confirmed as CEO. His involvement in the initial period has been to progress the reshaping instigated and stabilise the partner relationships. Financially, the 'sunk investment' has been made and we do see it starting to pay off.
- Shares trade at half ongoing sales. The cash position is strongly cash positive and the business, even at very low levels of profit, does not absorb cash. Supply contracts, headcount and closing one store will impact on costs for FY17E.
- We do estimate that gross profit margins are rising. The trend has bene an upward one in recent years during the repositioning. Traditional markets have been bad and getting worse during this positive trend at gross levels. In this area, price discounting is intensifying.

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)	4.5	5.0	5.8	5.8	Present
EV/Sales (x)	0.1	0.2	0.2	0.2	
EV/EBITDA (x)	0.9	1.3	1.3	1.4	
FCF Yield (%)	37.6	16.7	18.8	18.8	
Dividend Yield (%)	24.5	25.0	12.5	14.4	

Source: Hardman & Co Research

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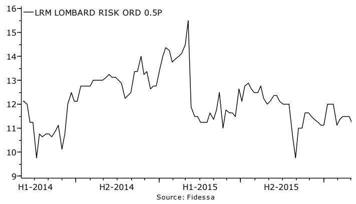
Software & Services



Source: Fidessa

Price (p)	**11.10**
Mkt cap (£m)	29.23
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%. We shall comment in more detail post the update this month, when we anticipate initiating FY17 estimates.

- In February, Tina Wilkinson, a new global head of product was appointed. Tina joins from FIS/SunGard, managing global development in UK, US and Europe in previous roles, including Citigroup, Allianz, BNP Paribas. There has clearly been strong delivery and useful networks established.
- A week ago there was a major North American client 'go-live'. This enables automation of the bank's US Federal and Treasury reporting, as well as the Reserve Bank of India reporting requirements. It covers data input through to reports to the regulators.
- 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 too.

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)	10.3	6.5	5.3	13.9	-
EV/Sales (x)	2.5	1.7	1.3	1.3	1.1
EV/EBITDA (x)	10.5	5.5	4.5	6.1	5.0
FCF Yield (%)	(5.8)	4.4	(1.7)	0.7	(3.4)
Dividend Yield (%)	0.5	0.6	0.7	0.7	0.8

Source: Hardman & Co Research

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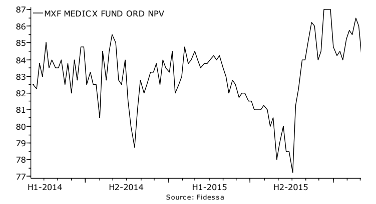
Real Estate



Source: Fidessa

Price (p)	**87.30**
Mkt cap (£m)	317.25
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)

Last month, MedicX Fund reported end December financials. EPRA NAV rose 2% vs end September, or 0.6% per share, to 71.2p. In the period, MedicX committed to forward funding its second property in the Republic of Ireland. We estimate RoI properties yield 200 bps more than equivalent in UK. During the same quarter, the Fund sold five million shares from treasury at c85.5p, a premium to NAV. This was to meet market demand. MXF paid a dividend of 1.475 pence/ share at the end of the quarter.

- ► The latest valuation was on net initial yield of 5.40%. Current weighted average cost of debt is 4.45%. MedicX tends to fix its debt long term in order to raise the certainty of its future profits stream. IN calendar Q4, MedicX invested, committing £20.4m into six acquisitions, 5 fully-let in UK, one forward funding in Republic of Ireland.
- ► 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. 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.
- ► 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).
- ► This is a robust fund and the share price has reflected this in recent market turmoil. Through the past month, the share price has bene not far from its high for the year. This is a fully justified response to the benefits accruing from a slowing economy and the impact this has on keeping a lid on interest rates.

Financial summary and valuation

Year End Sep	2012	2013	2014	2015E	2016E
Income (£m)	25.5	29.5	33.7	37.3	41.0
Operating profit (£m)	20.2	21.8	27.3	29.7	32.8
Interest (£m)	(11.0)	(13.0)	(13.8)	(15.7)	(17.7)
Declared profit	9.7	20.4	39.1	24.0	24.0
PBT Adj.(pre revaln, perf fee) (£m)	9.8	10.7	13.5	14.5	15.6
EPS Reported (p)	3.6	5.9	9.9	6.3	6.5
EPS Adj. (p)	3.6	3.1	3.4	3.8	4.0
DPS (p)	5.7	5.8	5.9	6.0	6.1
Property acquisitions	95.0	65.0	21.0	70.0	70.0
Net (debt)/cash (£m)	(246.7)	(255.2)	(281.5)	(334.0)	(360.0)
Dividend Yield (%)	6.5	6.6	6.8	6.9	7.0
Price/NAV	1.38	1.33	1.23	1.18	1.13
NAV (p)	63.1	65.4	70.8	73.8	77.0

Source: Hardman & Co Research

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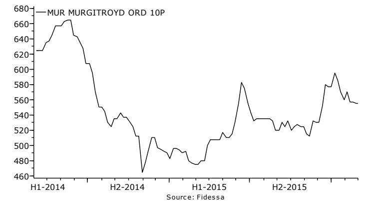
Support Services



Source: Fidessa

Price (p)	**552.50**
Mkt cap (£m)	49.32
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. We maintained full year estimates but raised the dividend estimate to 16.25p from former estimate of 16.0p versus FY15 14.75p. This reflects Board policy to promote a progressive dividend, based on strong cash flow, balance sheet and profit cover. US market and specifics to Murgitroyd remain robust.

- 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.

- We note the new website, focused on the 'customer journey' which reflects the updated Murgitroyd position. There is a clarity to the outline of the Services and Sectors segments. Services comprises patents, trademarks, designs, utility models, IP filing, renewals, appeals, strategy and more.

- Focus in Europe is being sharpened and Murgitroyd is working hard to minimise downside risks. This includes the UK, where revenues are in a slightly negative trend. The strategic focus there is also to maximise scope into any future upturns in specific markets. The cost base is relatively flexible.

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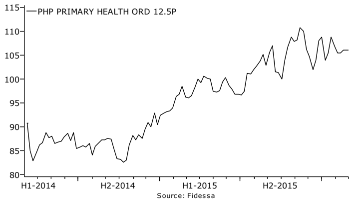
Financial summary and valuation

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)	15.4	14.7	16.4	16.0	15.2
EV/Sales (x)	1.5	1.5	1.3	1.2	1.2
EV/EBITDA (x)	11.4	10.7	10.8	10.8	9.9
FCF Yield (%)	4.9	3.6	5.1	4.9	5.9

Source: Hardman & Co Research

Real Estate



Source: Fidessa

Price (p)	**106.00**
Mkt cap (£m)	471.70
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. We published a full report on 11th February. PHP invests in modern assets which are in strong demand and offer secure long term returns. Assets comprise primary care medical properties (surgeries, multi-use clinics), the portfolio grown through funding development of pre-let purpose-built assets and acquiring portfolios of modern standing stock. These are securely backed assets. 91% of lease income is effectively Government paid, with the rest being exceptionally well underpinned income from pharmacies.

- 2015's dividend cover rose to 107% in second half. FY 2016 we estimate 105% cover. There have been 19 years' unbroken dividend increases paid since founding. 2015 profits were significantly enhanced by operational and financing efficiencies. Cost of debt stands at 4.67%, and falling.

- There is no rental income risk or void risk, but exposure to future interest rate trends. Loan/asset value is 62.7%. Average debt maturity is steady, around six years, with a small amount of forward Swaps. As incremental management costs are below PHP's average, faster expansion enhances dividend cover.

- The net initial yield of UK primary medical real estate has been in a range of 5.2% to 6.2% for the past ten years. By contrast, IPD (investment property databank) all property UK net initial yield has ranged between 4.5% and 7.5% in that period. Currently the medical property yields more than 'average' UK real estate: 5.4% vs 5.1% for all property UK.

- 1% PHP will receive income from developers forward-funded by PHP, in a similar fashion to its UK operations. We model £10m assets on PHP's balance sheet by end this year, £25m next, but this is subject to revision. Rents are in € as would be debt. We consider up to €100-130m as being a possible appetite – over a number of years**.**

Financial summary and valuation

Year End Dec	2013	2014	2015	2016E	2017E
Income (£m)	42.0	60.0	63.1	67.8	72.7
Operating profit (£m)	35.5	52.5	55.4	59.7	64.2
Interest (£m)	(26.9)	(35.5)	(33.7)	(35.0)	(37.2)
Declared profit	20.2	36.9	56.0	34.7	37.0
PBT Adj.(i.e. pre revaln) (£m)	9.5	18.2	21.7	24.7	27.0
EPS Reported (p)	5.7	8.3	12.6	7.7	7.9
EPS Adj. (p)	2.7	4.1	4.8	5.4	5.7
DPS (p)	4.8	4.9	5.0	5.1	5.1
Property acquisitions	291.0	75.0	29.5	70.0	70.0
Net (debt)/cash (£m)	(587.0)	(655.0)	(695.0)	(744.0)	(793.0)
Dividend Yield (%)	4.5	4.6	4.7	4.8	4.8
Price/NAV	1.55	1.53	1.36	1.29	1.23
NAV (p)	68.5	69.5	78.0	82.0	86.0

Source: Hardman & Co Research

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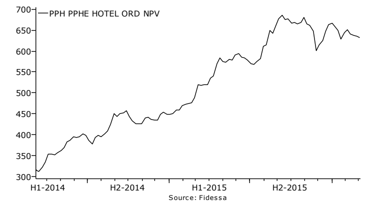
Travel & Leisure



Source: Fidessa

Price (p)	**634.0**
Mkt cap (eur)	340.4
Shares (m)	41.5
Market	London (Main)
Broker	finnCap & Oriel
	www.pphe.com

Description: PPHE owns, co-owns, leases, franchises and manages a portfolio of 4* hotels with 8,300 rooms in Europe, with a strong emphasis on Central London. Net asset value per share is considerably ahead of the share price.

PPHE Hotel Group (PPH)

Bolt-on deal: PPHE has last week announced a strategic, tidying-up transaction to acquire the other 80% of a jv in Croatia. The deal is highly accretive to PPHE, and it improves the transparency of the group results, as the jv is now part of the central line, and the cash flow is not consolidated. We have not adjusted our forecasts in the table, but will revise our numbers with the final results later this month.

- **Positive Results:** Interim results beat expectations, with revenues and EBITDA better than our estimates. Revenue growth of 12% yoy was boosted by the weakness of the Euro (translating £ sales). Group RevPAR grew by 12.1% to €127.3, driven by an 11.3% increase in room rate and a 60 bps increase in occupancy. The RevPAR increase for Q3 was identical. Q4 was good, given that the industry reported a softer December in London, likely 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 c.10,000 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.
- **Sector:** The global sector has enjoyed a multi-year strong run in room rates, and investors have recently been expressing concern that rates may soften, especially if global GDP slows. Clearly the relationship of corporate travel to the economy is important, but PPHE has some protection through its extensive development programme, focused in London where there has been limited supply growth and strong demand. Weaker sterling is helpful in this respect.
- **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 shares trade at a significant discount to asset value, and offer 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)	24.8	18.3	12.4	8.2	9.2
EV/Sales (x)	3.5	3.0	2.9	2.6	2.4
EV/EBITDA (x)	14.1	10.7	11.1	9.7	8.6
Dividend Yield (%)	0.9	1.9	2.2	3.0	3.3

Analyst

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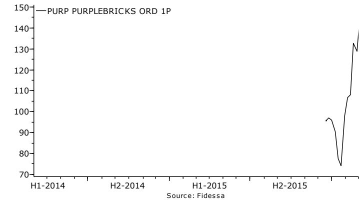
Software & Computing Services



Source: Fidessa

Price (p)	**137.00**
Mkt cap (£m)	328.80
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.

Purplebricks Group (PURP)

Purplebricks' 26th January maiden results as a quoted company came in as expected. We maintain our financial estimates. It is fascinating to see that the shares are not far short of having doubled from the low post flotation. The model is proven, we consider, and our model is predicated on 7% market share of total UK sales transactions some 4-5 years hence. This is far from 'in the bag' but it already is number 4 in volumes. This is a hybrid model, relying on 'local property experts' LPEs.

- LPEs are key to success and, importantly, to date, 43 LPEs have already engaged additional LPEs in their business. There is substantial potential. Indeed we anticipate sub-licence LPEs to grow in number from c60 currently to over 100 by end May, 300 on average during FY18.

- **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.

- Purplebricks is currently cash flow negative, estimated to turn positive at some stage during FY17E. Purplebricks has a limited financial history and has experienced rising losses – as per budget – with marketing historically running at circa 1x revenue. We see marketing costs as core to the business.

- **Investment summary:** LPEs are top quality. Customers' payment of a non-returnable fee focuses customers, Purplebricks and its LPEs on achieving the sale. This has translated into a rapid growth to a sizeable business and with plenty of growth potential. A truly disruptive operating cash-flow backed model.

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	41.5	19.3	12.8
EV/Sales (x)	95.4	16.9	6.0	3.8	(0.6)
EV/EBITDA (x)	(60.0)	(28.2)	36.7	14.5	(1.8)
FCF Yield (%)	0.9	7.0	2.4	5.8	10.0

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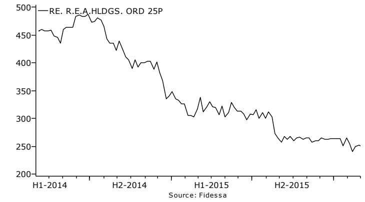
Food Producers



Source: Fidessa

Price (p)	**240.00**
Mkt cap (£m)	88.10
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

R.E.A. Holdings (RE.)

2015 has been a tough year with harsh climatic conditions and depressed commodity prices. We are forecasting a small and reduced profit for the year as a consequence and cash flow has been impacted negatively. The company has responded by introducing a net new $19.3m of funding being a mixture of equity and debt capital. But behind the fog of difficult business conditions, operating efficiencies can be seen to be rising and the electricity supply operations have begun to generate first year revenues. This is a significant development and we do not think that it has been adequately reflected in the valuation.

- **Strategy:** REA is developing and operating high quality palm oil production assets in East Kalimantan. By end 2016 the company should have planted some 40,800 ha of oil palm with 20,000 to 25,000 ha of further plantable area to complete, out of a total land bank of circa 111,000 ha. A mid-size plantation by Indonesian standards, REA represents an attractive consolidation target.
- **Share Price:** the ordinary shares and the 9% Cumulative Preference shares have been weak, reflecting depressed palm oil prices. The Prefs have been impacted by the re-pricing of corporate and EM debt, a change in UK tax treatment of dividends and concerns about cash flow, yet the 2015 Pref dividend has been paid and one director has acquired Pref shares recently.
- **Valuation:** Currently REA is trading at a discount of circa 21% to its peers. This looks anomalous on the basis of asset quality and operational efficiencies and taking into account a possible value of circa $30m for the electricity operations which began to generate revenues during 2015.
- **Risks:** Agricultural risk, commodity price risk and country risk are constants of palm oil production. A bias to the use of debt finance means that the net debt to equity ratio is currently estimated at 68.6%. REA has stated its intention to rebalance debt with permanent capital. Investors will be watching for progress on this front.
- **Investment summary:** REA is developing and operating high quality plantation assets to produce sustainable palm oil. Against a background of tightening land availability in Indonesia, REA reports that it is in discussion with various parties about a possible sale of a strategic stake in the business. We recommend that all valuations of the company should now reflect a separate valuation line for the electricity supply business, an operation almost unique to REA Kaltim.

Financial summary and valuation

Year End Dec	2013	2014	2015E	2016E	2017E	2015E
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	Estimates Under Review
DPS (p)	7.25	7.75	-	-	4.00	
Net (debt)/cash ($m)	(164.4)	(179.2)	(206.1)	(195.4)	(206.1)	
Net debt/EBITDA (x)	4.2	4.2	9.2	6.1	4.2	
P/E (x)	8.5	3.3	-	-	10.2	
Dividend Yield (%)	3.0	3.2	-	-	1.7	
EBITDA Margin (%)	35.1	33.9	24.4	29.6	36.3	
Planted Hectare (ha)	34,062	34,614	36,814	40,814	42,814	37,614
EV/Planted hectare* ($/ha)	11,004.6	11,256.7	11,314.7	9,944.7	9,730.0	

Source: Hardman & Co Research

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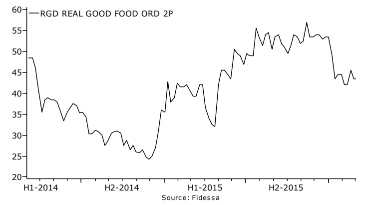

Source: Fidessa

Price (p)	**43.04**
Mkt cap (£m)	29.96
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. We are re-instigating FY17E. We would highlight certain points of note. We are estimating Renshaw – as the largest constituent – to be growing profits but with certain higher costs than formerly estimated. This includes higher depreciation from higher rising capex (c£6m pa for the Group as a whole likely for some years, twice depreciation).

- **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.
- For Renshaw, we estimate £5.0m operating profit FY16E (vs £5.2m FY15A). FY17 estimates stand at £44m sales (unchanged vs FY16E and -6% vs FY15). FY17 EBITDA estimates for the division now are £6.7m vs £6.0m FY16E and £6.1m FY15. The rising depreciation mean EBITA rises more slowly, so that FY17E, albeit an all time high, would be only 5% above FY16E and 2% over FY15:
- 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	2017E
Sales	265.7	272.6	232.9	104.0	108.0	
EBITDA	10.0	2.7	1.1	4.8	6.0	
Operating profit	8.0	0.5	(1.2)	3.0	4.1	
PBT	6.5	(1.2)	(3.2)	2.5	3.6	
EPS (p)	7.0	(0.4)	(4.1)	2.4	3.7	
DPS (p)	-	-	-	-	0.2	
Net (debt)/cash (£m)	(25.0)	(31.3)	(30.1)	(3.0)	(2.0)	
Net debt/EBITDA (x)	2.5	11.6	27.4	0.6	0.3	
P/E (x)	6.2	n.a.	n.a.	17.9	11.6	
EV/Sales (x)	0.2	0.2	0.3	0.3	0.3	
EV/EBITDA (x)	5.5	22.7	54.6	6.9	5.3	
FCF Yield (%)	-20.4%	3.7%	-20.7%	-13.4%	-13.4%	

Source: Hardman & Co Research

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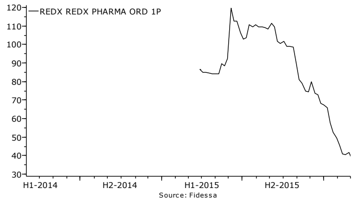
Pharmaceuticals & Biotech



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 company's 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 "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 end 2016 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" 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.

- **Proof-of-concept:** Redx has to date delivered six proofs-of-concept in its various programmes. At the recent AGM, management announced that it had reached this stage with a new lead to treat gonorrhoea, one of the most common sexually transmitted diseases, and the second proof-of-concept from its anti-microbial pipeline.

- **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. Redx has 14 such candidates currently.

- **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.

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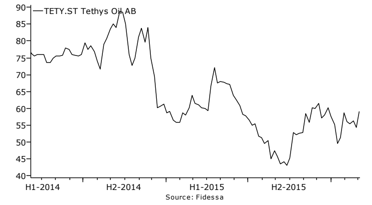
Oil & Gas



Source: Fidessa

Price (SEK)	**55.25**
Mkt cap (MSEK)	1,964
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.

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Tethys Oil AB (TETY)

Like all oil producers Tethys has been impacted by oil prices, which fell 22% Q on Q to USD 47.9 per barrel. Q4 revenues were MSEK 222, with an EBITDA of MSEK 113 and operational cash flow of MSEK 23. The net result was MSEK 27 with cash at MSEK 436 as per 31 December 2015. Production is up and operationally things are going very well, with a 31% upswing in production during Q4 2015 compared to Q4 2014. Subsequently, production now coming on-stream from the Lower Khufai reservoir and the Buha reservoir at the Shahd field. Tethys expect to see continued production growth over the coming year.

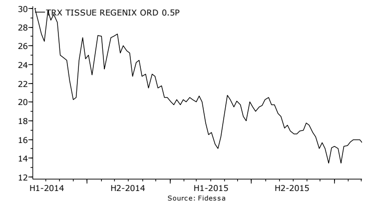
- 2P Reserves replacement stood at 113%.
- A dividend of SEK 1.00 per share is set to be proposed at the AGM in May.
- While the oil price - has clearly impacted Tethys' results, the company remains tightly focussed on cash flow. Production has just hit a new high and production growth is expected to continue this year, albeit with some Q on Q volatility as maintenance works are scheduled. Overall, investors may expect production to remain at a level whereby the company maintains its maximum cost recovery.
- Talking of costs, service costs are under pressure which should help reduce exploration costs while relatively speaking, increased production levels will reduce per barrel lifting costs as much of the baseline is fixed OPEX. Management attest they be able to maintain a gross profit at a price floor below 30 dollars per barrel.
- Recent reservoir appraisals and optimisations all indicate Tethys still has a significant potential for growth and when the oil prices begin to recover, Tethys will be very well placed indeed. They are a well-managed dividend paying company predatory for opportunity.

Financial summary and valuation

Year End Dec	2011	2012	2013	2014	2015
Sales (MSEK)	584	592	1,027	905	-
EBITDA (MSEK)	509	479	743	496	-
Operating Profit (MSEK)	336	285	393	194	-
PBT (MSEK)	314	240	340	198	-
EPS (SEK)	9.11	6.76	9.56	5.66	-
DPS (SEK) (proposed)	-	-	3	1	-
Production, before government take (bbl)	1,345,854	1,663,069	2,804,240	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	47.9	-
P/E (x)	6.1	8.2	5.8	9.8	-
Cash MSEK	248	295	372	436	-
Shareholders Equity MSEK	860	1,100	1,675	1,864	-

Source: Hardman & Co Research

Pharmaceuticals & Biotech



Source: Fidessa

Price (p)	**16.0**
Mkt cap (£m)	121.5
Shares (m)	759.7
Market	AIM

Description: TRX is a UK 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 be used to repair diseased or worn out body parts. Launched DermaPure in US to treat chronic wounds and is developing other uses in clinical areas such as heart valve replacement and Orthopaedic sports medicine.

Tissue Regenix (TRX)

Tissue Regenix is no longer an R&D play. Its dCELL® technology enables production of 'like-for-like' tissue specific, structure-preserving scaffolds that have been validated in multiple clinical settings. Following the US launch of DermaPure®, we expect a series of further product launches over the next two years in Orthopaedic Sports Medicine and heart valve replacement, substantial markets with significant unmet medical need. The company continues to build long term value despite short term monthly cashburn of ~£0.8m. An 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 three therapeutic corporate entities provide.

- **Joint venture:** Last month, TRX established JV with GTM-V, a German tissue bank, an important step in the commercialisation of dCELL heart valves and DermaPure throughout the EU. The JV will make the necessary regulatory submissions and first products are expected to be launched in 2017

- **New appointments:** TRX recently appointed Drew Distin as head of its new subsidiary, Tissue Regenix Orthopaedics. Inc, established to advance the commercialisation of its dCELL orthopaedic applications within the US.

- **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.

Financial summary and valuation

Year end Jan (£000)	2014	2015	2016E	2017E	2018E	2019E
Sales	6	100	494	2,067	6,073	14,716
Underlying EBIT	-6,483	-8,189	-10,013	-12,443	-13,350	-9,752
Reported EBIT	-6,577	-8,369	-10,203	-12,653	-13,580	-10,002
Underlying PTP	-6,209	-8,021	-9,890	-12,280	-13,279	-9,626
Statutory PTP	-6,303	-8,201	-10,080	-12,490	-13,509	-9,876
Underlying EPS (p)	-0.9	-1.0	-1.2	-1.5	-1.6	-1.1
Statutory EPS (p)	-0.9	-1.2	-1.2	-1.5	-1.6	-1.1
Net (debt)/cash	18,483	10,257	20,450	8,814	15,825	6,215
Shares issued	8	5	18,972	0	20,000	0
P/E (x)	-	-	-	-	-	-
EV/sales (x)	-	-	-	-	-	-
Sales	6	100	494	2,067	6,073	14,716

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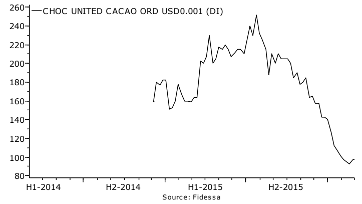
Food Producers



Source: Fidessa

Price (p)	**97.00**
Mkt cap (£m)	18.04
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.

United Cacao Limited SEZC (CHOC)

UCL announced the settlement and litigation in the Company's favour, confirming the Company's freehold properties' environmental permitting and agricultural zoning since 1997.

- Following legal proceedings between the Company and Rettet den Regenwald e.V. which were initiated by the Company on 20 January 2014, a settlement has now been registered at the District Court of Hamburg in Germany under which Rettet den Regenwald e.V. shall: (i) pay to the Company monetary compensation; and (ii) immediately publish clarification statements on its websites and Twitter for defamatory comments previously published and since removed. The Company intends to donate the monetary damages from Rettet den Regenwald e.V. towards social programmes targeting youth education and women's health initiatives in its operating area.

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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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