Hardman Monthly

April 2016

Feature article: UK/EU Electricity – Not Defensive

Company Coverage:

- Advanced Oncotherapy
- Allergy Therapeutics
- Alliance Pharma
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- Burford Capital
- City of London Investment Group
- Grafenia
- Lombard Risk Management
- MedicX Fund
- Murgitroyd
- PPHE Hotel Group
- Primary Health Properties
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- Purplebricks
- Real Good Food
- Redx Pharma
- Tethys Oil AB
- Tissue Regenix
- Titon Holdings
- Verona Pharma

Our key feature this month is a review of the UK/EU Electricity sector by Nigel Hawkins who has recently joined Hardman to cover the utilities and renewable energy market. Nigel has had a long career in the City covering both industries having worked at Hoare Govett covering water and electricity privatisation, and at Yamaichi and W de Bröe.

The major conclusions are:

- Despite a number of key government initiatives across Europe to encourage new investment by smaller companies, the electricity industry remains dominated by the very large corporates.
- Falling demand has caused power prices to fall sharply, especially in Germany.
- Most of the larger energy companies have given priority to reducing high debt levels, either selling non-core assets or in some cases reducing dividends.
- Electricity generating companies are no longer regarded as defensive assets as investors in RWE and E.On have discovered.
- Over the past decade a shift to renewable generation, aided by generous public subsidies, has been a notable feature of the UK/EU energy landscape.

Forthcoming Events

Date	Company	Event
4th April 2016	Belvoir Lettings (BLV)	Final Results
7th April 2016	Alliance Pharma (APH)	FY 2015 Results
7th April 2016	Titon Holdings (TON)	Investor Day
12th April 2016	City of London Investment Group (CLIG)	Q3 Update
13th April 2016	Redx Pharma (REDX)	General Meeting regarding share placing
17th April 2016		OPEC Meeting
22nd April 2016	Hardman & Co	Brexit Brunch with Lord Howard Flight
27th April 2016	Avacta (AVCT)	Interims
April 2016	Grafenia (GRA)	Trading Update
April 2016	Primary Health Properties (PHP)	AGM & Update
April 2016	Premaitha Health (NIPT)	Trading Update

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UK/EU Utilities – Not defensive

The current status

Electricity utilities were generally regarded as defensive stocks…

…but this view changed sharply following the onset of the credit crunch-generated recession in 2009

Although the focus of Hardman & Co is on companies with micro- to mid- sized market capitalisations, it is important to understand how such companies fit within the industries in which they operate. Therefore, this month, we have taken a look at the Electricity sector. The UK/EU electricity sector remains dominated by several large integrated players. Nonetheless, initiatives have been introduced in several countries to bring smaller companies into the sector, but this has proven to be very challenging. Yet, seriously depressed power prices and high debts have adversely impacted the share price ratings of the large players – and much-needed investment.

Falling demand caused power prices to fall sharply, especially in Germany where the trend was exacerbated by both the decision to close all nuclear production by 2022 and to stimulate renewable generation through 'feed-in tariffs'.

In recent years, most large energy companies have given priority to reducing their high debt levels, driven up by poor cash flow due to depressed energy prices. Hence, several have sold non-core assets, whilst others, notably RWE, have reduced their dividends. For companies with little reliance on generation returns, the returns have been far better, most obviously from National Grid.

Global highlights

Undoubtedly, 2015 was a challenging year for many companies. In mainland Europe, virtually all the leading players faced real problems, although Iberdrola has recovered on the back of its renewables generation exposure. Many of the others have focused on strengthening their balance sheets and, in some cases, demerging various assets.

- **National Grid** has been the outstanding performer. The key to its performance, up by 12% over the last year, has been its energy transmission and distribution activities, which are regulated on a long-term basis; for the core UK electricity transmission business, its current pricing formula should endure until March 2021. Its RPI+ dividend growth policy is also cherished by investors.
- **SSE** has also generally satisfied investors, especially given its exposure to both the Scottish referendum and the subsequent General Election. From its Scottish base, it is involved in virtually all forms of generation and distribution, including heavy investment in wind generation. Its RPI+ dividend growth policy is also attractive.
- **EdF** faces a raft of challenges in its nuclear generation-dominated business; its shares are down by a dire 56% over the last year. Power prices in France are weak and massive expenditure will be needed to up-date its French-based nuclear fleet. EdF plans also to build its third-generation EPR model at Hinkley Point in Somerset – subject, of course, to raising the necessary funds.
- **E.On/RWE** have both seen continuing weak share price performance – both are off by over 80% since their peaks in 2007. Major re-structuring policies are being implemented and high debt levels are being reduced. But the nuclear situation remains grim, with all nuclear plants due to close by 2022. The dividend outlook is weak – RWE has controversially scrapped its 2015 dividend.

UK/EU Utilities – 10 year share price performance to end March 2016

Company	Market Cap.	+/- since 3/2006
National Grid	38.1	76%
Iberdrola	31.0	-5%
ENEL	30.0	-35%
Engie	26.7	n/a
EdF	15.5	-75%
SSE	14.7	29%
E.On	13.2	-73%
Centrica	11.4	Unchanged
CZE	6.4	n/a
RWE	5.3	-85%

Source: Hardman & Co Research
Exchange rate: €1.27 to £ sterling

The generation sector should produce constant revenues…

…but there is sensitivity to price changes

Whilst in theory, the generation sector should produce reasonably constant revenues, it has always been subject to pronounced changes in prices. However, the risk factor has been raised in recent years as energy-saving has become more pronounced with an adverse impact on electricity demand. Incorporating renewable generation into existing country plant portfolios has also proved challenging particularly in Germany. Hence, large sector players are having to adapt to much-changed supply conditions – some have done so successfully, whilst others have not.

Undoubtedly, many companies were quite unprepared for the recession – and its impact. Furthermore, some have under-estimated the political momentum behind renewable generation and the drive to reduce carbon emissions. The Fukushima nuclear accident has also had wide-ranging ramifications, not least in Germany.

Strategy remains key

Fortunes of companies have been very variable over the last decade

The table above provides a stark commentary as to how the fortunes of some companies have prospered over the last decade – and how some have plummeted. National Grid, with its non-generation exposure, and SSE have seen sharp share price rises. But shares in RWE, E.On and EdF have all plunged – all three need to adapt to a very different energy landscape quite quickly, as well as reducing their debt levels.

Whilst capital expenditure and operating costs are being cut - primarily to reduce high net debt and to prevent further credit down-ratings - some companies are examining more radical strategies. Both E.On and RWE are splitting up their companies, essentially into the 'new' and the 'old'.

Key data

Company	Country	Generation Capacity (GW)
Centrica	UK	6.1
CEZ	Czech Republic	16.0
EdF	France	136.2
ENEL	Italy	96.0
Engie (GdF Suez)	France	115.3
E.On	Germany	61.1
Iberdrola	Spain	43.5
National Grid	UK	n/a
RWE	Germany	49.1
SSE	UK	13.0
Vattenfall	Sweden	40.8

Source: Company reports; Hardman & Co Research

SSE

Despite the many challenges it has faced over the last 18 months, SSE has done well – and rewarded its shareholders accordingly, with projected RPI+ dividend growth for the future. Its business, although deliberately limited to the British Isles, is widespread across the utility sector, with substantial regulated earnings. It has also called the shift to renewable generation correctly, although it remains exposed to any material renewable subsidy changes.

Centrica

Although most of its earnings are from its UK British Gas business, Centrica remains heavily involved in the electricity sector; heavy gas-fired generation losses continue. However, a new strategy is now being implemented, with an increased emphasis on improving its British Gas operations and growing its US businesses. Exploration and Production (E&P) investment is being sharply cut back due to weak oil and gas prices.

Iberdrola

Undoubtedly, Iberdrola has bucked the trend of plunging EU energy company share prices. Mainly due to its renewables generation investments over the last decade, its shares have found much-needed support as the stricken Spanish economy has recovered and material earnings come in from its overseas investments, including its ScottishPower operations.

Nuclear power

Given the need for base-load generation, nuclear power remains key in many countries, especially France. But, following the Fukushima accident in 2011, the chances of new nuclear-build in Germany, Spain, Sweden and probably Italy are virtually non-existent.

In the UK, the key project is the £24 billion plant at Hinkley Point C in Somerset; a 35-year £92.50p per MWh Contract for Difference is on offer to EdF. But, if Hinkley Point C is not built, replacing the UK nuclear fleet may never take place, short of direct Government investment. Significantly, both in Finland, at Olkiluoto, and at Flamanville in France, the European Pressurised Reactor (EPR) projects are way above budget and way behind schedule.

Renewables generation – wind

Over the last decade, a shift to renewable generation – aided by generous public subsidies – has been a notable feature of the UK/EU energy landscape.

Whilst there are various forms of renewable generation – even if nuclear is excluded from this definition – it has been the development of on-shore wind plants that has been at the forefront of replacing fossil-fuel plant.

Around 90% of UK/EU wind turbines are sited on-shore but increasingly, other countries, notably Germany, are following the UK's lead in off-shore wind development.

Whilst wind costs per MW are coming down, wind-generation is inherently unreliable since the wind may not blow sufficiently or, in some cases, blows too strongly. Inevitably, because of its intermittency, this creates problems for the grid operator. Furthermore, in some countries, particularly in the UK, local opposition to proposed wind plants may result in planning permission being withheld.

Wind Generation Capacity	
Country 12/2015	**Generation Capacity (MW)**
Germany	44,946
Spain	23,025
UK	13,603
France	10,358
Italy	8,958
Sweden	6,025
Poland	5,100
Portugal	5,079
Denmark	5,064
Netherlands	3,431
Romania	2,976
Ireland	2,486
Austria	2,411
Belgium	2,229

Source: EU Statistics; Hardman & Co Research

Off-shore wind turbines are becoming larger

One of the defining characteristics of off-shore wind is the ever-increasing size of the turbines, as illustrated below by the recent Siemens models.

Off-shore wind turbines

Source: www.siemens.co.uk

Renewable Generation – Others

There is considerable Government support – and, in most cases, public money – theoretically behind the various renewable power technologies. But it has been proved very challenging even to deliver the various projects that have actually materialised. Developments on these six other forms of renewable energy are summarised below.

- **Biomass** – Given the challenges on meeting EU waste disposal requirements, Governments remain very keen on promoting biomass projects. In the UK, the various Drax Power fuel conversion projects are key, although some smaller straw and chicken litter-fuelled projects have been realised. Elsewhere Germany and Finland lead investment in biomass.

- **Hydro-power** – Whilst hydro-power has been a staple of many large companies for generations, including EdF, Engie and, in the UK, SSE, recent investment in small schemes has been modest. In short, most of the best hydro-power sites in western Europe have already been exploited.
- **Tidal** – The famous Rance tidal scheme in Normandy, built in the 1960s, remains the tidal power benchmark. In the UK/EU, nothing similar has been built for decades despite periodic studies into the viability of a Severn Barrage.
- **Wave** – Much work has been undertaken to develop wave technology, especially in Scotland; nothing to date has become commercially available that seems likely to produce wave-generated power in sufficient quantity.
- **Solar** – In southern parts of the EU, there has been heavy investment in solar power, although subsidies in some countries, notably Spain, were suddenly cut. The leading investments have been in developing solar arrays; at a retail level, solar panels have been installed on many millions of rooves throughout the EU. The UK-based PV Crystallox Solar is a lead player in producing silicon ingots and wafer, key components in solar panels.
- **Fuel cells** – Longer-term, fuel cells may be able to store energy in substantial quantities, which would be a massive step forward. To date, though, progress has been disappointing. In the UK, the quoted Intelligence Energy and Ceres Power are amongst those companies who have been prominent in marketing fuel cell technology.

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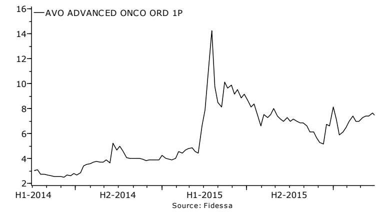
Company Research

Share prices at 29th March 2016.

Healthcare Equipment & Service



Source: Fidessa

Market data

EPIC/TKR	AVO
Price (p)	7.62
12m High (p)	16.90
12m Low (p)	3.92
Shares (m)	1418.3
Mkt Cap (£m)	108.1
EV (£m)	100.4
Free Float*	64%
Market	AIM

**As defined by AIM Rule 26*

Description

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.

Company information

CEO & Chairman	Michael Sinclair
COO & CFO	Nicolas Serandour
Business Dev..	Sanjeev Pandya

020 3617 8728
www.advancedoncotherapy.com

Key shareholders

Directors	17.0%
Brahma AG	19.3%
Banca Profilo SPA	6.6%
Aviva Investors	5.7%
Hargreaves Lansdowne	5.4%

Next event

June	Finals
June	AGM
Sept	Interims

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Advanced Oncotherapy

Stronger execution capabilities to support roll-out

AVO is focused on delivering a more affordable, novel, proton-based radiotherapy system, based on technology originally developed and tested at the world-renowned CERN. AVO's system has attributes (affordability, modularity, versatility) that appeal to growing healthcare demands. Including two purchase orders in China, and the agreement with Circle to operate the first proton therapy facility in the UK, AVO's pipeline could amount potentially to $480m. AVO's recent Thales partnership and senior management appointments represent an important step in ensuring a successful commercial roll-out of the LIGHT system.

- **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.

- **Senior appointments:** Head of Regulatory Affairs with 19 years' experience at IBA dealing with Chinese and US markets; also a Technical Director with strong RF background. The Executive Chairman is additionally taking on the role of CEO, whereas the CFO has also been given responsibility for operations (COO).

- **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's PT solution is exceptional 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. AVO re-iterated yesterday that the development of the LIGHT system remains in line with the timetable provided to shareholders in November 2014.

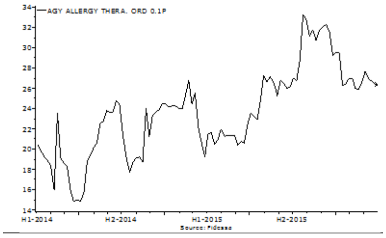
Financial summary and valuation

Year end Dec (£000)	2013	2014	2015E	2016E	2017E	2018E
Sales	69	106	80	35,484	80,645	137,097
EBITDA	-2,041	-5,063	-6,644	-4,522	3,547	19,871
Reported EBIT	-3,173	-6,453	-8,894	-4,702	2,848	19,900
Underlying PBT	-2,382	-5,059	-6,899	-4,812	2,555	18,264
Statutory PBT	-3,970	-7,563	-8,969	-4,812	2,056	18,543
Underlying EPS (p)	-0.59	-0.60	-0.53	-0.37	0.20	1.29
Statutory EPS (p)	-0.99	-0.89	-0.69	-0.37	0.16	1.31
Net (debt)/cash	-3,042	477	7,641	-11,333	-32,677	-42,079
Capital increase	2,437	10,158	21,063	0	0	0
P/E (x)	-12.9	-12.8	-14.3	-20.4	38.8	5.9
EV/sales (x)	1,612.4	1,011.5	1,255.5	3.4	1.7	1.1
EV/EBITDA (x)	-54.4	-21.3	-15.1	-26.4	39.7	7.6

Source: Hardman & Co Life Sciences Research

Allergy Therapeutics

Pharmaceuticals & Biotech



Source: Fidessa

Market data

EPIC/TKR	AGY
Price (p)	26.5
12m High (p)	34.8
12m Low (p)	19.0
Shares (m)	589.2
Mkt Cap (£m)	156.1
EV (£m)	124.6
Free Float*	37%
Market	AIM

**As defined by AIM Rule 26*

Description

AGY provides information to professionals about prevention, diagnosis and treatment of allergic conditions with special focus on allergy vaccination, a successful treatment that deals with the underlying cause and not just the symptoms!

Company information

CEO	Manuel Llobet
CFO	Ian Postlethwaite
Chairman	Peter Jensen

01483 685 670
www.allergytherapeutics.com

Key shareholders

Directors	0.9%
Abbott Labs	40.8%
Southern Fox	21.2%
Odey	7.3%
Invesco	5.8%
Blackrock	3.2%

Next event

2Q 2016	G204 US dosing trial
Sept 2016	Finals
Nov 2016	AGM

Analysts

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Investing for future growth

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. Interim results last month showed that investment in marketing has benefitted position and market share in Europe. Good progress has been made in US and EU clinical trials, but the expanded R&D programmes will cost extra over the next three years. The company is well funded to deliver on its strategy with its short-course allergy vaccines expected to enter the market as a disruptive technology in 2019.

- **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.

- **Sales:** AGY had already announced to the market that underlying sales growth in 1H'16 was +12% but, given that most sales are in Euros, this would be reduced significantly on translation. However, there was a positive effect from the first contribution from Alerpharma, so sales emerged £0.5m above expectations.

- **Currencies:** In addition to the impact on sales, Reported G&A benefitted (+£1.1m) from translation of USD cash deposits that are earmarked to pay for the US clinical trial programme. However, this benefit was offset (-£0.8m) by the re-translation of Euro-denominated financial derivatives.

- **R&D:** 1H'16 was successful for R&D. One US trial (G102) was completed and a second (G204) is fully recruited, as is the case in Europe with Pollinex Quattro (PQB 204). Total R&D spend was £0.5m lower than forecast at £6.5m, but timing, cost and extra trial work will push up the full year number.

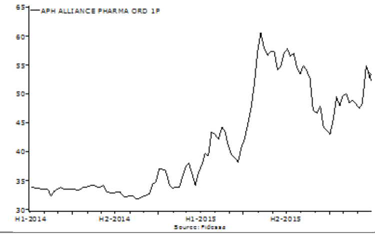
- **Investment summary:** AGY is at a very interesting point in its development. All the trials needed for full approval of its allergy vaccines as biological products in both the US and Europe have made significant progress. Meanwhile, corporate strategy to invest in market share ahead of these approvals has been successful, albeit at slightly reduced margins. Trial outcomes later in 2016 will be key.

Financial summary and valuation*

Year end June (£m	2013	2014	2015	2016E	2017E	2018E
Sales	39.28	41.96	43.23	46.06	49.26	53.25
R&D investment	-2.54	-2.96	-3.12	-13.00	-12.00	-10.00
Underlying EBIT	0.85	1.39	2.23	-9.36	-7.61	-4.72
Reported EBIT	0.67	1.21	0.72	-9.86	-7.61	-4.72
Underlying PTP	0.62	1.27	2.16	-9.45	-7.76	-4.91
Statutory PTP	0.43	1.08	0.65	-9.95	-7.76	-4.91
Underlying EPS (p)	0.17	0.20	0.34	-1.72	-1.40	-0.92
Statutory EPS (p)	0.13	0.16	0.02	-1.81	-1.40	-0.92
Net (debt)/cash	0.65	2.25	20.19	18.94	9.42	1.87
Capital increases	0.15	0.00	20.08	11.00	0.25	0.25
P/E (x)	154.4	126.9	76.5	-15.1	-18.6	-28.3
EV/sales (x)	3.1	2.9	2.8	2.6	2.5	2.3

**Forecasts under review*
Source: Hardman & Co Life Sciences Research

Pharmaceuticals & Biotech



Source: Fidessa

Market data

EPIC/TKR	APH
Price (p)	52.3
12m High (p)	63.0
12m Low (p)	36.2
Shares (m)	468.2
Mkt Cap (£m)	244.9
EV (£m)	319.4
Free Float*	74%
Market	AIM

*As defined by AIM Rule 26

Description

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.

Company information

CEO	John Dawson
CFO	Andrew Franklin
Chairman	Andrew Smith

01249 466 966
www.alliancepharma.co.uk

Key shareholders

Directors	13.9%
MVM Life Sciences	11.9%
Aviva	9.4%
Artemis	8.3%
Nigel Wray	8.0%
Slater Investments	7.2%

Next event

7 April	FY 2015 results
25 May	AGM
Sept	Interims

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Alliance Pharma

Bedding-in its largest acquisition

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.

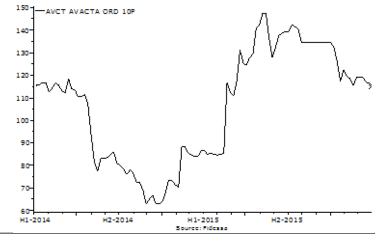
- **Acquisition – largest to date:** The acquisition of 27 products and related assets for £132.2m (inc. £4.7m inventory) represented a step change in the scale of its ambition. Funded by way of a Vendor Placing raising £83.5m (gross) including a £5m over-allotment option, and the draw-down of £51m (net) of Loan Notes.
- **2015 Finals due 7th April:** Forecasts are based on underlying sales growth of +6%, boosted by acquisition to +11% reported to just over £48m. EBIT, on an underlying basis is expected to rise +7%, but the reported numbers will be boosted by the Sanofi settlement for ImmuCyst. DPS to rise +10% to 1.1p.
- **Integration:** Apart from confirming the make-up of the balance sheet and the inventory position, 2015 numbers are not particularly important. Key will be management commentary about how the bedding down of the acquisition from Sinclair IS and if anything unexpected, both +ve and -ve, has been discovered.
- **Outlook:** We upgraded forecasts recently to reflect the acquisition with FY'16 sales and EBITDA almost doubling to £96m and £28.8m, respectively, and effected a +14% increase in EPS to 4.2p (from 3.7p). Our forecasts do not include any contribution from Diclectin which should launch in the UK in 2016.
- **Investment summary:** The shares are trading on a 2016 PE of 12.6x with a CAGR growth rate of ca.9%. With a dividend yield of 2.3% (2016E), cover of 3.5x, 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 June (£m)	2013	2014	2015E	2016E	2017E	2018E
Sales	45.3	43.5	48.2	96.0	99.8	103.7
Operating profit	13.9	12.4	13.3	28.0	29.9	31.8
Reported pre-tax profit	12.1	10.2	14.9	22.2	26.2	28.8
Underlying EPS (p)	4.2	3.3	3.4	4.2	4.6	4.9
Reported EPS (p)	3.8	3.2	4.4	3.7	4.3	4.7
DPS (p)	0.9	1.0	1.1	1.2	1.3	1.5
Net (debt)/cash	-25.0	-21.1	-72.4	-64.3	-51.1	-33.0
Net debt/EBITDA (x)	1.7	1.6	5.2	2.2	1.7	1.0
P/E (x)	12.6	16.1	15.5	12.6	11.6	10.8
EV/Sales (x)	7.1	7.4	6.7	3.4	3.2	3.1
EV/EBITDA (x)	22.1	24.5	23.3	11.2	10.5	9.9
Dividend Yield (%)	1.7	1.9	2.1	2.3	2.5	2.8

Source: Hardman & Co Life Sciences Research

Pharmaceuticals & Biotech



Source: Fidessa

Market data

EPIC/TKR	AVCT
Price (p)	115.0
12m High (p)	154.0
12m Low (p)	80.0
Shares (m)	68.4
Mkt Cap (£m)	78.6
EV (£m)	50.3
Free Float*	46%
Market	AIM

**As defined by AIM Rule 26*

Description

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

Company information

CEO	Alastair Smith
CFO	Tony Gardiner
Chairman	Trevor Nicholls

01904 217 070
www.avacta.com

Key shareholders

Directors	3.7%
IP Group	24.8%
Henderson	12.2%
Aviva	9.9%
Baillie Gifford	7.7%
Ruffer LLP	7.1%

Next event

27 April	Interims
25 Oct	Finals
Jan 2017	AGM

Analysts

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Avacta

2016 interims due end of April

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.

- **Commercial opportunity:** Antibody technology is the accepted 'gold standard' in terms of research, diagnostic and therapeutic tools and have combined markets of ca.$70bn per annum. Affimers may represent an important additional tool in the armoury especially where antibodies have limitations.

- **Scientific Advisory Board:** In March, Avacta appointed three leading immunologists, who together with NED (Dr Mike Owen), will form the SAB to help guide the company. These scientists have made discoveries and published many papers regarding genes and proteins that regulate the immune system.

- **2016 Interims:** Due for release at end of April. Sales are forecast to be a fraction over £1.0m (+39% vs £0.73). Marketing investment will give rise to an underlying EBIT loss of –£2.0m (–£1.75) and reported pre-tax loss of –£2.0m (–£1.87m). Commentary about progress towards Affimer therapeutic leads is anticipated.

- **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.

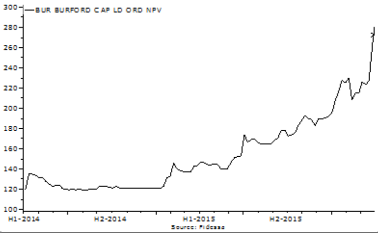
- **Investment summary:** The enterprise value of Avacta does not reflect the value that big pharma is prepared to pay for new technologies and assets. The median up-front paid is US$17m and US$40m for pre-clinical and Phase I assets respectively. These figures were exemplified superbly by the deals that Molecular Partners has secured for its comparable DARPin technology.

Financial summary and valuation

Year end July (£m)	2013	2014	2015	2016E	2017E	2018E
Sales	2.70	3.18	1.81	2.15	3.02	4.17
EBITDA	-1.74	-1.33	-2.34	-3.30	-3.81	-3.89
Underlying EBIT	-1.83	-1.86	-2.91	-4.06	-4.57	-4.65
Reported EBIT	-1.87	-2.07	-5.57	-4.36	-4.90	-5.01
Underlying PBT	-1.80	-1.83	-2.89	-3.85	-4.40	-4.55
Statutory PBT	-1.85	-2.04	-5.54	-4.15	-4.73	-4.91
Underlying EPS (p)	-4.67	-3.07	-4.50	-4.68	-5.11	-5.03
Statutory EPS (p)	-4.82	-3.57	-9.84	-5.13	-5.59	-5.56
Net (debt)/cash	0.58	11.48	7.33	21.00	12.61	3.42
Capital increase	0.00	14.54	0.02	20.79	0.00	0.00
P/E (x)	nm	nm	nm	nm	nm	nm
EV/sales (x)	nm	nm	nm	nm	nm	nm

Source: Hardman & Co Life Sciences Research

FTSE sector: Financials



Source: Fidessa

Market data

EPIC/TKR	BUR
Price (p)	243.0
12m High (p)	243.0
12m Low (p)	139.5
Shares (m)	204.5
Mkt Cap (£m)	497.0
Total assets ($m)	540.6
Free Float*	87%
Market	AIM

**As defined by AIM Rule 26*

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.

Company information

CEO	Christopher Bogart
CIO	Jonathan Molot
Chairman	Sir Peter Middleton

+1 (212) 235-6820
www.burfordcapital.com

Key shareholders

Directors	13%
Invesco Perpetual	29.9%
Fidelity Worldwide	9.5%
Woddford Investments	7.2%
Aberdeen Asset	6.0%
Reservoir Capital	5.6%

Next event

AGM	17 May 2016
Caoital Markets Day	18 May 2016
Interim Results	27 July 2016
Date	Event

Analysts

Brian Moretta 020 7929 3399
bm@hardmanandco.com

Burford Capital

Great results and step change in investments

The 2015 results were excellent. With income growing 26% to $103m and operating profit up 27% to $77.2m, Burford continues to show the benefits of its careful investment policy. A single case with a return of $61m caught the headlines, but the benefits of diversification were evident with 16 investments contributing to cash flow from litigation investment of $140m. The return on invested capital from investments is now a cumulative 70%. The results further confirm Burford's ability to produce impressive financial returns while generating meaningful growth.

- **Investment**: Over the course of the year Burford made 18 new investments and commitments of over $200m. Since the year end it has made an additional investment of $100m, boosting invested capital from 54% of equity a year ago to 77% now.

- **Retail bond:** Burford maintains a strong balance sheet. The additional investment leaves it able to fulfil its commitments, but possibly limited if larger opportunities are found. In order to be able to take full advantage Burford will be issuing another retail bond shortly.

- **Valuation:** The upgrades to our 2017E figures suggest that Burford remains undervalued relative to its potential. The prospective P/E for 2017E is just 9.0 times. With the additional investment we believe an RoE in the 14-15% range is sustainable while still growing its invested capital quickly.

- **Risks:** The investment portfolio is fairly focused with some very large investments, which means revenue may be volatile. As the company matures we would expect that to decrease, but not to disappear. As expected, revenue from the insurance business is declining post the adoption of the Jackson reforms.

- **Investment summary:** Burford has already demonstrated an impressive ability to deliver good returns in a growing market while investing its capital base. As the invested capital continues to grow, the litigation investment business will continue to produce strong earnings growth.

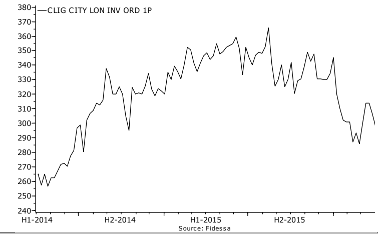
Financial summary and valuation

Year end Dec ($m)	2012	2013	2014	2015	2016E	2017E
Revenue	54.2	60.7	82.0	103.0	95.5	122.2
Operating Profit	34.1	42.5	60.7	77.2	67.9	92.0
Reported net income	17.4	2.6	45.4	64.5	49.1	70.6
Underlying net income	31.6	40.1	53.0	64.5	49.1	70.6
Underlying Return on Equity	9.7%	11.7%	12.1%	16.3%	11.1%	14.5%
Underlying EPS ($)	0.15	0.20	0.26	0.32	0.24	0.35
Statutory EPS ($)	0.10	0.01	0.22	0.32	0.24	0.35
Dividend per share ($)	0.05	0.05	0.07	0.08	0.09	0.10
Yield	1.3%	1.4%	1.8%	2.1%	2.4%	2.6%
NAV per share ($)	1.62	1.72	1.87	2.12	2.28	2.54
P/E (x) (underlying)	24.5	19.3	14.6	12.0	15.8	11.0
Price/NAV (x)	2.3	2.2	2.0	1.8	1.7	1.5

Source: Hardman & Co Research

City of London Investment Group

FTSE sector



Source: Fidessa

Market data

EPIC/TKR	CLIG
Price (p)	306.0
12m High (p)	367.5
12m Low (p)	286.0
Shares (m)	26.9
Mkt Cap (£m)	82.4
EV (£m)	72.1
Free Float*	%
Market	LSE

**As defined by AIM Rule 26*

Description

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

Company information

CEO	Barry Olliff
CFO	Tracy Rodrigues
Chairman	David Cardale

Telephone number
www.citlon.com

Key shareholders

Directors	21.4%
BlackRock	7.9%
Hargreave Hale	7.7%
Slater Investments	3.7%
Polar Capital	3.3%

Next event

12 Apr 2016	Q3 update
18 Jul 2016	Pre-close updated
12 Sep 2016	Preliminary Results

Analysts

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Mark Thomas 020 7929 3399
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Emerging market recovery to boost FUM

Unfortunately the economic backdrop for emerging markets remains difficult. A slight recovery in the oil price is good for producers, even if it remains below levels that most of them would desire. The strong US Dollar has not helped, with many debts denominated in that currency. The Chinese economy has continued to produce mixed signals, with no significant further deterioration but no recovery yet either. India remains a bright spot, helped by being one of the winners from a low oil price.

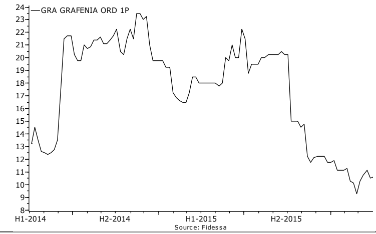
- **Market moves:** From 29th February to 28th March the MSCI Emerging Markets Index has a strong recovery, rising 9.8%. Given that we expect a significant improvement in funds under management at the third quarter statement next month.
- **Valuation:** The prospective P/E of 13.5 times is now at a slight premium to the peer group. The yield of 8.4% is very attractive and should at the very least provide support for the shares in the current volatile markets.
- **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 £8m of cash the company can easily cover the gap that current market levels imply.

Financial summary and valuation

Year end Jun (£m)	2013	2014*	2015	2016E	2017E	2018E
FUM ($bn)	3.71	3.90	4.20	3.70	4.30	4.92
Revenue (£m)	29.36	24.22	25.36	21.87	23.74	26.59
Statutory PTP	8.86	7.24	8.93	7.33	8.72	10.73
Statutory EPS (p)	24.9	20.7	26.4	21.2	25.6	31.5
Dividend (p)	24	24	24	24	24	24
P/E (x)	11.5	13.9	10.9	13.5	11.2	9.1
Yield	8.4%	8.4%	8.4%	8.4%	8.4%	8.4%

Source: Hardman & Co Research

Support Services



Source: Fidessa

Market data

EPIC/TKR	GRA.L
Price (p)	10.5
12m High (p)	22
12m Low (p)	9
Shares (m)	45.7
Mkt Cap (£m)	4.8
EV (£m)	2.0
Free Float*	72%
Market	AIM

**As defined by AIM Rule 26*

Description

Cross-media franchise in web design – to print. Online revenues >50%. Printing for SMEs, predominantly UK, also NZ.

Company information

CEO	Peter Gunning
CFO	Alan Roberts
Chairman	Les Wheatley

0161 848 5700
www.grafenia.com

Key shareholders

Directors	4.0%
Langfristige Investoren	23.6%
Axxion SA	6.6%
3G Capital	6.0%
R Hardie esq	3.7%
Small Co Dividend Trust	3.2%

Next event

April 2016	Trading update
June 2016	Final results
Mid July 2016	AGM

Analysts

Mike Foster 020 7148 0545
mf@hardmanandco.com

Grafenia

Repositioning adding online design: good progress

The core print business is in decline: no new news in that regard. Grafenia has for some time been moving to online print work and for some short number of years we have been commenting on the expansion of the web-design work which Grafenia has successfully incorporated to its offering. Progress in this area is good, with a business model honed by dialogue and sales to customers and dialogue with the franchise network. Web design is breaking into profitability but not yet material to reported profits.

- **NED appointed**: Jan-Hendrik Markus Mohr is a new NED as of 15 March. He is founder and MD of JMX Capital GmbH, an investment advisory firm. Previously, Jan worked in investment management with Investmentaktiengesellschaft für Langfristige Investoren TGV, a 23.6% shareholder in Grafenia.

- **Share price falls**: Significant amounts of stock have changed hands in the past months and the share price has absorbed a fair bit of such turbulence. Some of the stock is from the former founder and CEO. Certain other Board members have bought modest amounts of stock as have high net worth investors.

- **Financials:** Gross margins have bene rising: from FY13 54.2% to over 56% now. That trend should +/- continue. Why? Online is higher margins (and strong cash flow). Balance sheet strength reflects long standing positive trading cash flow but also the significant business disposal, which completed early in October for €2.35m.

- **Valuation:** Trading remains difficult, however, so our estimates remain suspended. Run-rate sales are c£10m pa and this – through the economic downturn and repositioning costs – remains profitable. With c£3m net cash on b/s and a dividend, the shares are inexpensive. Post disposal, EV falls greatly.

- **Investment summary:** Grafenia has reinvented a part of its business – the range of services its franchisees can sell and the route to market for those services. Given this – early days – is proving successful, there is good top line upside. Much of this would fall to the PBT level as the costs have been incurred.

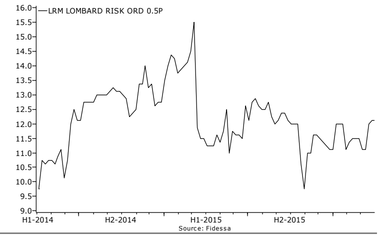
Financial summary and valuation

Year end Dec (£m)	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	
PBT Adj. (£m)	1.3	1.1	0.8	0.9	
EPS Adj. (p)	2.3	2.1	1.8	1.8	No
DPS (p)	2.6	2.6	1.3	1.5	estimates
Net (debt)/cash	1.8	1.4	1.4	1.3	at
Net debt/EBITDA (x)	cash	cash	cash	cash	present
P/E (x)	4.7	5.1	6.0	6.0	
EV/Sales (x)	0.1	0.1	0.1	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

hardman&co

Software & Computer Services



Source: Fidessa

Market data

EPIC/TKR	LRM.L
Price (p)	12
12m High (p)	13
12m Low (p)	9
Shares (m)	305
Mkt Cap (£m)	36.5
EV (£m)	33.5
Free Float*	48%
Market	AIM

**As defined by AIM Rule 26*

Description

Provision of financial services software to banks and asset managers. Solutions are focused on collateral and risk management for regulatory reporting.

Company information

CEO	Alastair Brown
Exec Chairman	Philip Crawford
CFO	Nigel Gurney

020 7593 6700
www.phpgroup.co.uk

Key shareholders

Directors	2.0%
J Wisbey esq (founder)	30.9%
Liontrust	8.5%
Fidelity	8.1%
Hargreave Hale	7.3%
Herald	5.1%

Next event

June 2016	Final results
July 2016	AGM
Nov 2016	Interim results

Analysts

Mike Foster 020 7148 0545
mf@hardmanandco.com

Lombard Risk Management

Growth for 2016, 17 but visibility needs to rise more

The growth in profits is closely allied to top line, with gross margins at over 99%. Growth derives from direct sales (many through upgraded and newer products to existing clients) and from Alliances (through professional services firms and business process firms, eg Genpact). There is a broadening of product layering, with more on cloud and more at a step range of pricing points. Clients are global: UK, North America, Far East and also Continental Europe. New client wins are being announced, but overall – particularly in Alliances – the top line growth 'take-off' remains to be secured. We anticipate results in (probably early) June.

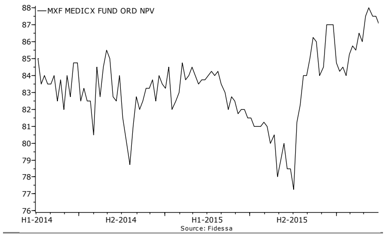
- **Profits**: We anticipate £3.3m profit H2, which is well up on 2015 when £2.3m was reported in H2 (and same for full year). A £1.8m loss was recorded in H1 current year. We see £3.0m tech spend expensed this year (£2.4m prior year) and £15.3m other expenses (£14.7m). £3.7m depreciation is estimated (£2.1m).
- **Growth generators**: At the interim stage, the order book was up 33% whilst bookings were up 48% yoy. As per a year ago, there are good wins but still the strategic visibility of regular order flow to match the software investment (especially in Alliances configuring, also newer 'cloud') is not yet fully in place.
- **Growth**: This is a sales growth business, short, medium and long term. However, in 2015 growth slowed and we estimate circa 10% sales growth in the year just ended. This does not provide sufficient momentum for profits to rise, given investments in product development (part expensed, part capitalised).
- **Valuation:** We believe visibility will rise and certainly there have been new wins announced recently. Operating cash flow was running at £5.7m last year, but this may fall and the £5.5m capex spend may rise. This important investment trend in FY16 has not helped the share price but does invest in the future.
- **Investment summary:** The investment in the future has been cash but, more importantly, senior people. There has also been significant recruitment here, with a new CEO, new NEDs and a reposition at CTO. Alliances ARE generating new business, regulatory change drives strategic growth and we like the pricing and operational flexibility the greater emphasis on 'cloud' brings. Good value.

Financial summary and valuation

Year end Mar (£m)	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
P/E (x)	11.1	7.1	5.7	15.0	24.0
EV/Sales (x)	3.0	2.2	1.7	1.6	1.4
EV/EBITDA (x)	13.0	6.9	5.7	7.8	6.4
FCF Yield (%)	(4.7)	3.6	(1.4)	0.5	(2.7)
Dividend Yield (%)	0.5	0.5	0.6	0.7	0.8

Source: Hardman & Co Research

Real Estate



Source: Fidessa

Market data

EPIC/TKR	MXF.L
Price (p)	88
12m High (p)	88
12m Low (p)	78
Shares (m)	375
Mkt Cap (£m)	330
EV (£m)	664
Free Float*	51%
Market	LSE Full

**As defined by AIM Rule 26*

Description

Long term investment into UK and Eire modern primary health properties (eg doctor surgeries). MedicX has an efficient tax structure.

Company information

CEO	Mike Adams
CFO	Alan Pennell
Chairman	David Staples

01483 869 500
www.medicxfund.com

Key shareholders

Directors	small%
Investec Wealth	9.8%
Architas	9.3%
CCLA	9.0%
Brewin Dolphin	7.6%
East Riding Yorkshire	4.8%

Next event

May 2016	Interim results
End June 2016	Div payment
End Sept 2016	Div payment
December 2016	Final results

Analysts

Mike Foster 020 7148 0545
mf@hardmanandco.com

MedicX Fund

Strong visibility only just begins to be reflected

The UK economy seems to be slowing with profit warnings in a number of sectors. The sector in which MedicX invests consists of modern assets with long leases and upward-only rents. In recent months the UK real estate sector has moved from a valuation at a premium to NAV, down now to a discount. Rental growth uncertainty is rising across the sector. But MedicX is 100% placed in the one asset category not in this position. MedicX also has accelerated its growth prospects by expanding its acquisitions to very similar assets in Eire, but ones exhibiting a yield premium to UK of c200bps. So MedicX's growth prospects are actually rising.

- **Growth from development pipeline held**: The annualised roll (which includes properties to be developed) is some 28% above historic rents received. Year to September 2015, the annualised rent roll rose 9.1% yoy to £35.8m. Rent received rose 16.8%. Further, MedicX is acquiring, including recently entering Eire - which generates higher yields.
- **Growth generators**: 1) Development pipeline held; 2) further investment; 3) modest expansion to higher-yielding Eire; 4) rents (current low growth); 5) valuation rises (modest and steady positive). The initial investment valuation yield was 5.40% at end December 2015, 5.46% end September, 5.57% March 2015, 5.68% September 2014 – an ongoing steady progress, which we anticipate to continue as investors seek out the income stream certainty in the sector.
- **Valuation:** MedicX is increasingly strongly placed, given investor concerns elsewhere (GDP and covenant related), totally irrelevant to MedicX. Take British Land as an example. FY15 EPRA NAV rose 20% to 829p and the shares spent most of 2015 trading between 800 and 880p. They now stand at 700p. Even pre the dividend yield support, MedicX deserves its share price premium valuation vs NAV. The share price also stands at a discount to DCF based valuation.
- **Investment summary:** MedicX picks up a AAA rated rent stream whose yield is at a premium to its 4.45% long-term fixed cost of debt. Whilst the dividend is uncovered – as a matter of strategy – the rate of EPS increase is set to rise in the medium term as we anticipate exposure into Eire (with higher yields) and an acceleration in UK rent increases. A robust stock for uncertain times.

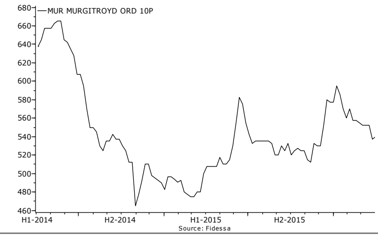
Financial summary and valuation

Year end Sept (£m)	2013	2014	2015	2016E	2017E
Income (£m)	25.5	29.5	33.7	37.3	41.0
Interest (£m)	(11.0)	(13.0)	(13.8)	(15.7)	(17.7)
Declared profit	9.7	20.4	39.1	24.0	25.1
PBT Adj. (£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 (%)	6.6	6.7	6.9	7.0	7.1
Price/NAV	1.39	1.35	1.24	1.19	1.14
NAV (p)	63.1	65.4	70.8	73.8	77.0

NB PBT Adj., pre revaluation, performance fee *Source: Hardman & Co Research*

Murgitroyd

Support Service



Source: Fidessa

Market data

EPIC/TKR	MUR.L
Price (p)	533
12m High (p)	605
12m Low (p)	500
Shares (m)	9.0
Mkt Cap (£m)	48.4
EV (£m)	664
Free Float*	53%
Market	AIM

**As defined by AIM Rule 26*

Description

Global translator of patents.

Company information

CEO	Keith Young
CFO	Keith Young
Chairman	Ian Murgitroyd

0141 307 8400
www.murgitroyd.com

Key shareholders

Directors	32.0%
Ian Murgitroyd (director)	27.0%
State Street nominee	17.6%
Chase nominee	6.9%
HSBC nominee	4.8%
E Thompson (Ms)	4.3%

Next event

Sept 2016	Final results
Oct/Nov 2016	AGM
Feb 2017	Interim results

Analysts

Mike Foster 020 7148 0545
mf@hardmanandco.com

Strong visibility only just begins to be reflected

The global economy seems to be slowing but Murgitroyd's market – global patents – has exhibited resilience in terms of volumes. Any downturn (not evident currently) would be anticipated to be modest. Indeed 2014 showed 3% market growth to an all time high (European Patent Office) and 2015 is set for c3%+. Murgitroyd has been successfully engineering down costs. This does have to be passed to clients, however. We see some scope for upgrades to 2016, given Sterling weakness, with rising margins in evidence. We anticipate initiating 2017 numbers next month, to show growth.

- **Growth from USA**: Murgitroyd has been investing in offices in several US locations. This comprises 43% Group sales, and grew 18% year on year at the last results. Note that it constituted 39% of total sales in 1H15, up 22%**.**

- **H1 reported and H2 prospects**: Results for the six months to November were reported on 1st February, in line to slightly ahead of expectations. H1 PBT was £2.1m. Thus H2 PBT should prove to be up almost 10%, on rising margins. H1 revenues were £20.4m (+5.7%). We estimate a minimal rise in H2 revenues. This should prove conservative and, additionally, Sterling weakness should boost reported profits. We plan to review estimates next month.

- **Valuation:** The current level of profitability reflects competitive market conditions which have been addressed and are not worsening further in very recent years. Given the net cash, steady, stable growth, albeit modest organically the rating is not expensive. In addition, this is a fragmented industry and Murgitroyd strongly placed.

- **Investment summary:** Murgitroyd is a stable business and one which is internationally diversified, with particularly strong exposure to the USA – an economy which seems to still have good momentum. Whilst the yield is not high, 3.1% current year (and growing well) is respectable, with strong underpinning.

Financial summary and valuation

Year end May (£m)	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
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)	14.8	14.1	15.8	15.4	14.6
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
Dividend Yield (%)	2.3	2.4	2.5	2.8	3.1

NB PBT Adj., pre revaluation, performance fee *Source: Hardman & Co Research*

Primary Health Properties

Equity issue for growth

The announcement on 22nd March of a £120m equity raise is to fund growth. There is a 50/50 split between a firm placing and a placing open offer and offer for subscription. The statement highlights the desire to expand the raise to £150m if sufficient demand is experienced. The issue is at 100p, a 9% discount to the previous closing price and 14% premium to historic EPRA NAV. Initially £70m proceeds will be used to pay down revolving debt so there is an element of gross cash being held on the balance sheet, which we incorporate into estimates.

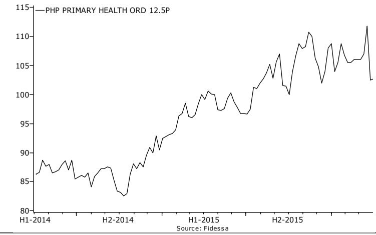
- **Equity issue**: We formerly had estimated £18m share issues in each of FY16E and FY17E. This is replaced by our new estimate of £116m: all in the current equity issue. As stated by PHP, if there is sufficient demand the issue size would enlarge but we do not assume this at this stage.
- **Financials: cash flow**: The equity issue was accompanied by a statement pointing to the wide range of investment opportunities available, a number of which will meet the PHP investment criteria. We have increased our FY17E for acquisitions by £10m to £80m.
- **Financials, EPS**: The equity raise is dilutive to EPS, albeit for FY17E we have raised revenue estimates by a small fraction of £1m as a result of the upgrade to acquisitions. For FY16E our EPS remains at 5.3p. For FY17E the figure falls to just over 5.3p from 5.6p. We maintain FY16E DPS but trim FY17E growth to 3%.
- **Valuation:** Trading remains robust and stable, by the nature of the business model. This strategic position has become relatively increasingly attractive as the cycle matures, combined with the outlook being for muted interest rate rises. The shares are inexpensive, despite trading at a premium to NAV.
- **Investment summary:** The sector has attracted significant amounts of fresh equity over the past years. Assura has raised equity in part to pay off debt but part for significant growth. MedicX (off a conservative balance sheet) has raised money all for expansion, as has PHP. This is an ongoing attractive area for growth, with rental growth acceleration likely albeit not until 2018 probably. This is a thoroughly different proposition to real estate more broadly.

Financial summary and valuation

Year end Dec (£m)	2013	2014	2015	2016E	2017E
Income (£m)	42.0	60.0	63.1	67.8	73.1
Interest (£m)	(26.9)	(35.5)	(33.7)	(31.5)	(33.9)
Declared profit	20.2	36.9	56.0	38.2	40.7
PBT Adj.(pre rev (£m)	9.5	18.2	21.7	28.2	30.7
EPS Reported (p)	5.7	8.3	12.6	7.2	7.2
EPS Adj. (p)	2.7	4.1	4.8	5.3	5.3
DPS (p)	4.8	4.9	5.0	5.1	5.3
Property acquisitions	291.0	75.0	29.5	70.0	80.0
Net (debt)/cash (£m)	(587.0)	(655.0)	(695.0)	(647.0)	(725.0)
Dividend Yield (%)	4.6	4.6	4.7	4.8	5.0
Price/NAV	1.54	1.52	1.35	1.26	1.23
NAV (p)	68.5	69.5	78.0	84.0	86.0

Source: Hardman & Co Research

Real estate



Source: Fidessa

Market data

EPIC/TKR	PHP.L
Price (p)	103
12m High (p)	111
12m Low (p)	95
Shares (m)	445
Mkt Cap (£m)	458
EV (£m)	1160
Free Float*	57%
Market	Main, LSE

**As defined by AIM Rule 26*

Description

Long term investment into UK and Eire modern primary health properties (eg doctor surgeries). PHP is a REIT

Company information

CEO	Harry Hyman
CFO	Phil Holland
Chairman	Alun Jones

020 7451 7050
www.phpgroup.co.uk

Key shareholders

Directors	4.0%
Harry Hyman (director)	3.7%
Unicorn	5.5%
Black Rock	5.3%
Investec Wealth	5.0%
CCLA	4.5%

Next event

Late April 2016	AGM & update
End May 2016	Quarterly div paid
August 2016	Interim results
End Aug 2016	Quarterly dividend

Analysts

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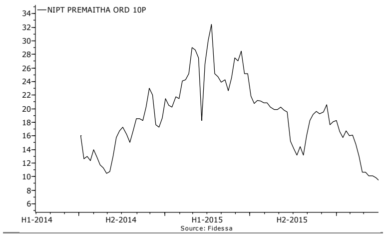
Pharmaceuticals & Biotech



Source: Fidessa

Market data

EPIC/TKR	NIPT
Price (p)	9.8
12m High (p)	34.0
12m Low (p)	8.0
Shares (m)	228.2
Mkt Cap (£m)	22.4
EV (£m)	15.8
Free Float*	71%
Market	AIM

**As defined by AIM Rule 26*

Description

NIPT is a molecular diagnostics company using the latest DNA analysis to develop tests for non-invasive pre-natal screening. Its flagship IONA® test is the first non-invasive in vitro CE marked diagnostic for pre-natal screening to estimate the risk of a foetus having Down's syndrome or other genetic conditions

Company information

CEO	Stephen Little
CFO	Barry Hextall
Chairman	David Evans

0161 667 6865
www.premaitha.com

Key shareholders

Concert party	28.8%
Helium	6.2%
Calculus Capital	5.6%
IS Partners Inv.Solns.AG	4.5%
Hargreave Hale	4.4%
(Directors*	10.7%)

**Mostly included in concert party*

Next event

Apr-16	Trading update
Sep-16	Final results

Analysts

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Premaitha Health

Commercialising IONA® globally

Premaitha uses the latest advances in DNA sequencing technology for non-invasive prenatal screening tests. IONA® uses complex statistical analysis to determine the likelihood that a fetus is carrying a disorder such as Down's syndrome or other prenatal genetic abnormalities. Although IONA is entering a competitive and litigious market, it has some advantages, is CE Marked, and is the first to win a UK NHS contract. Premaitha is subject to distracting IP infringement claims but 1H'16 results showed early signs of commercial traction. Also, NIPT has a strategically important partnership with Thermo Fisher which adds considerable credibility.

- **IONA:** This test is a screen for risk assessment that a fetus has a serious genetic disorder. The test is extremely accurate (sensitive) with few false positives and eliminates the need for unnecessary invasive follow-up tests that cause anxiety and stress. An option for sex determination has been added recently.

- **Commercialisation:** Management continues to roll-out the availability of IONA globally with distribution agreements announced for Russia and the Middle East during March, bringing the total number of deals to 16. In its first year of commercialisation, we are forecasting sales of IONA in the region of £2.0m.

- **Valuation:** Similar quoted companies are more mature and have considerable sales from the US market. Companies looking for access to NGS technology have paid handsome prices, again for more mature companies. However, both these statistics augur well for Premaitha as it develops sales traction with IONA.

- **Risks:** After receiving CE Mark for IONA, Premaitha received notification that Illumina Inc had filed patent infringement claims against the company. Although Premaitha will put up a vigorous defence and has provided £1.9m for costs, litigation is an expensive and time consuming distraction for management.

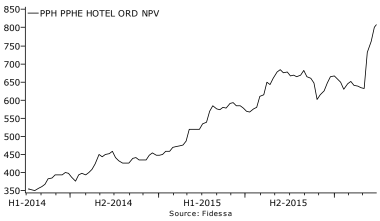
- **Investment summary:** Premaitha has an EV of £16.2m. The IONA test is the only product for NIPT with full regulatory approval in Europe. Although the patent litigation is a distraction, commercial partnerships are being signed and these will drive future revenue growth. Our conservative assumptions, based on signed deals, still suggest that Premaitha will be EBITDA positive in fiscal 2018.

Financial summary and valuation

Year end March (£m)	2014	2015	2016E	2017E	2018E
Sales	0.00	0.00	2.50	6.21	11.61
EBITDA	-1.44	-4.08	-4.22	-2.69	0.01
Underlying EBIT	-1.53	-4.34	-4.70	-3.40	-0.92
Reported EBIT	-1.53	-7.54	-6.72	-4.00	-1.52
Underlying PBT	-1.53	-7.45	-6.67	-4.15	-1.78
Statutory PBT	-1.53	-7.45	-6.67	-4.15	-1.78
Underlying EPS (p)	-4.13	-4.89	-3.07	-1.82	-0.78
Statutory EPS (p)	-4.13	-4.07	-2.40	-1.44	-0.62
Net (debt)/cash	-1.99	2.71	4.25	-2.19	-5.50
Capital increase	0.00	7.48	7.72	0.00	0.00
P/E (x)	nm	nm	nm	2.6	1.4
EV/sales (x)	nm	nm	nm	nm	nm

Source: Hardman & Co Life Sciences Research

Travel & Leisure



Source: Fidessa

Market data

EPIC/TKR	PPH
Price (p)	805
12m High (p)	805
12m Low (p)	517
Shares (m)	42.0
Mkt Cap (£m)	338
EV (£m)	735
Free Float*	26%
Market	Main

**As defined by AIM Rule 26*

Description

PPHE owns, co-owns, leases, franchises and manages a portfolio of 4* hotels with 8,300 rooms in Europe, with a strong emphasis on Central London. Real net asset value per share is significantly higher than the share price.

Company information

CEO	Boris Ivesha
CFO	Chen Moravsky
Chairman	Eli Papouchado

+31207178600
www.pphe.com

Key shareholders

Red Sea (Board)	44%
Molteno (Board)	19%
AroundTown Property H	9%
Hargreave Hale	6%

Next event

AGM	19 May

Analysts

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PPHE

Extremely Active Month

PPHE, the asset-backed, London-focused hotel operator, has had an extremely busy month. It announced its preliminary results which beat our and market expectations - the company continues to deliver a strong performance from existing operations while at the same time developing its portfolio for future earnings and asset growth. It announced the acquisition of a majority interest in its current associate and launched a takeover on the Zagreb Stock Exxchange. Crucially, as we went to press it announced a 10 year funding deal on a London hotel at 3.41%, a highly attractive funding rate.

- **Active Month:** PPHE has an extremely active year ahead with the completion of construction and then opening of several new hotels. Notwithstanding this, the company continues to move ahead with a significant acquisition and the closing of an important new funding deal, with more to come.

- **Full year results were strong:** The group benefited from a strong London hotel market, at least till the last weeks of the year, and from the strength of sterling vs the Euro. Neither will be as much help this year, which we see as one of consolidation, with acceleration into 2017 and beyond.

- **Acquisition:** The company is restricted on what it can say about the financial implications of its deal to acquire a majority interest in the Croatian associate, but knows the assets well and sees scope for refurbishment and performance enhancement. Completion will likely boost medium term forecasts.

- **Valuation:** The market cap stands at a significant discount to the value of the hotel assets, and management are understandably reluctant to do sale and leaseback deals when they can borrow 10 year money at 3.4%. Meantime the asset value is growing, so the discount will widen unless the shares perform.

- **Investment summary:** The discount to the value of the assets seems anomalous in our view, but gearing has been a pushback from investors. The financing deal clearly illustrates that lenders are comfortable with the assets and we expect that to be an increasing factor in investor perception of the group. Hotels are seeing slower RevPAR growth, but PPHE is creating its own growth organically which is clearly attractive.

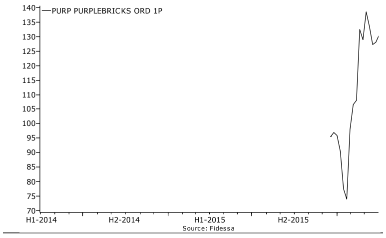
Financial summary and valuation

Year end Dec (£m)	2014	2015	2016E	2017E
Sales	216.941	218.733	239.642	277.565
EBITDA	76.1	80.1	83.6	98.6
Operating profit	56.5	61.0	63.3	75.6
Underlying PBT	26.7	30.0	31.0	43.2
EPS (p)	64.4	72.1	74.0	101.7
DPS (p)	19.0	20.0	21.0	22.5
Net (debt)/cash (€m)	-374.6	-397.7	-449.8	-421.9
Net debt/EBITDA (x)	4.9	5.0	5.4	4.3
P/E (x)	12.5	11.2	10.9	7.9
EV/Sales (x)	3.4	3.4	3.1	2.6
EV/EBITDA (x)	9.7	9.2	8.8	7.5
EV/sales (x)	2.4	2.5	2.6	2.8

Source: Hardman & Co Research

Purplebricks

Software & Computing services



Source: Fidessa

Market data

EPIC/TKR	PURP.L
Price (p)	130
12m High (p)	152
12m Low (p)	72
Shares (m)	240
Mkt Cap (£m)	312
EV (£m)	285
Free Float*	66%
Market	AIM

**As defined by AIM Rule 26*

Description

Estate agent using a novel hybrid model: online-local expert agents. Currently 100% UK, having recently gone national.

Company information

CEO, Founder	Michael Bruce
CFO	Neil Cartwright
Chairman	Paul Pindar

0800 810 8008
www.purplebricks.com

Key shareholders

Directors	25%
Woodford trusts	29%
Michael Bruce (CEO)	17%
Old Mutual (historic data)	6%
Kenny Bruce (director)	5%
Artemis	5%

Next event

June 2016	Final results
August 2016	AGM
October 2016	Trading update
January 2017	Interim results

Analysts

Mike Foster 020 7148 0545
mf@hardmanandco.com

Unique model's potential starts to be appreciated

Purplebricks is a 24 hour estate agency, combining technology and customer facing software with local property experts (LPEs) to create something better, more convenient, transparent and significantly cheaper for sellers. Since launch in April 2014 it has captured over 60% of the the online market and become the 4th largest UK estate agent. Its 'hybrid model' first mover advantage provides substantial scope for growth and suggests the share valuation remains modest. The December IPO raised £22.8m net new money (£58m in total) to enhance strong growth. Note there are a significant number of holders locked in for six months from flotation.

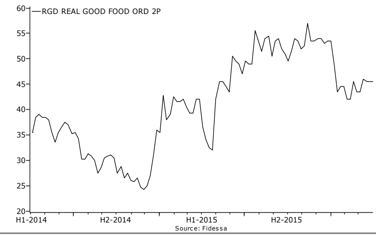
- **Strategy:** This is a hybrid model. Purplebricks has no high street offices and intrinsic to the model are LPEs (licenced by Purplebricks), trained, experienced professionals. It has over 180 of these, up from under 50 a year ago.
- **Significant growth potential:** Instructions are estimated to reach 19,200 FY16E then 43,000; 57,000; 76,000; 100,000. This is driven by the rise in LPEs: 153 on average in FY16E; 310 FY17E; 420 FY18E; 560 FY18E; 730 FY20E. Early days still, but the desire is to maximise sales per LPE as opposed to having a specific target growth in LPEs. Further, our numbers assume very modest lettings income.
- **Detail to growth drivers**: We model total income per sales instruction at £929 in the year just ending, rising to £1145 FY17E, £1250 FY18E, £1300 thereafter. We assume modest profits from the young lettings operation. Gross margins 55% FY16E; 60% thereafter. This leads to robust cash generation from FY17E.
- **Valuation:** Our valuation model relies on assessment of the future (cash backed) profits, but it should be noted that in under two years from (rolling) launch, the company is about to break into month-by-month profitability and breakeven cash from operating activities. See our December 2015 initiation research.
- **Investment summary:** Despite its relative youth (21 months since full launch) Purplebricks already dominates online with 60% + market share. Of course the housing market is cyclical. There might be challenges over the speed of adoption, recruitment of LPEs. The hybrid model is being copied. First mover advantage is an established fact benefitting Purplebricks: a crucial factor.

Financial summary and valuation

Year end Apr (£m)	2015	2016E	2017E	2018E	2019E	2020E
Sales (£m)	3.4	17.8	49.2	71.2	100.0	130.0
EBITDA (£m)	(5.4)	(10.7)	8.0	18.9	34.0	51.0
Operating profit (£m)	(5.4)	(10.7)	8.0	18.9	34.0	51.0
PBT (£m)	(5.4)	(13.1)	8.0	18.9	34.0	51.0
EPS (p)	na	na	3.3	7.1	10.7	15.7
DPS (p)	-	-	-	-	-	-
Net (debt)/cash (£m)	4.6	27.3	35.6	54.7	75.0	112.0
Net debt/EBITDA (x)	na	na	na	na	na	na
P/E (x)	na	na	39.4	18.3	12.1	8.3
EV/Sales (x)	90.4	16.0	5.6	3.6	2.4	1.5
EV/EBITDA (x)	(56.9)	(26.6)	34.6	13.6	7.0	3.9
FCF Yield (%)	1.0	7.4	2.6	6.1	10.6	16.0

We estimate nil dividends but this is under review *Source: Hardman & Co Research*

Food Producers



Source: Fidessa

Market data

EPIC/TKR	RGD.L
Price (p)	46
12m High (p)	59
12m Low (p)	31
Shares (m)	70.1
Mkt Cap (£m)	32.5
EV (£m)	36.0
Free Float*	22%
Market	AIM

**As defined by AIM Rule 26*

Description

Food manufacturing. Global sales, but predominantly UK. Cake decoration, premium bakery and food ingredients

Company information

Exec chairman	Pieter Totte
CFO	David Newman

020 3056 1516
www.realgoodfood.com

Key shareholders

Directors	6%
NB Ingredients	32%
Omnicane Inlt Inv Ltd	30%
Pieter Totte (director)	4%

Next event

July 2016	Final results
Sept 2016	AGM
Nov 2016	Interim results

Analysts

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Real Good Food

30% profits rise FY17, post minor setbacks

Post an end January trading update, FY16 estimates were reduced from £5.2m to £2.7m. We re-instigate FY17E, as illustrated below. Real Good Food's focus is towards premium product segments and premium routes to market via specialists who bring robust pricing. Food manufacturing is a robust sector – as long as the producer can manage or minimise exposure to the commodity-based multiple grocery lines. A number of quoted producers have benefitted from trends, for example such as consolidation (Finsbury Foods), pork consumption (Cranswick). We believe Real Good Food to have significant scope for margin expansion.

► **Business mix:** FY16E estimates indicate 45% Group revenue (Renshaw and RDC) generate 92% Group EBITDA (excluding central costs). These focus on UK cake decoration. The driver to this market is an ongoing expansion into hobbyist as well as the B2B and grocery sales. Exposure to the price pressure in multiple grocers is modest. £56m sales are anticipated to generate minimal profits. We see scope to raise the higher value added divisions' profits and the low margin ones too.

► **Risks:** There are a number of 'moving parts' which bring diversity revenue but expose Real Good Food to ranges of external factors (positive and negative). The main risk is Haydens having Waitrose at over of its 50% sales. There also has to be constant attention to maintain Renshaw's high visibility in retail offering.

► **Valuation:** Real Good Food's complementary businesses are achieving markedly differing financial returns. The portion of the Group currently achieving no material profits has significant value both to Real Good Food and intrinsically. Even ex this benefit, it is on a lower PE than any majors in the sector.

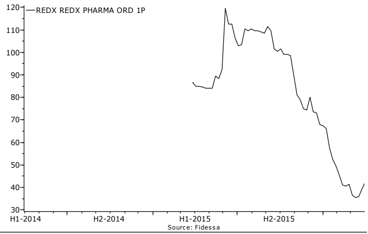
► **Investment summary:** We are more attracted by sales growth opportunities in baking, allied to margin recovery elsewhere than by the low rating and strong balance sheet. All these factors are however, positive. The track record has illustrated the high management input required to gain 'take-off'. The time to optimise all businesses is longer than anticipated, but direction of travel is good.

Financial summary and valuation

Year end Mar (£m)	2013	2014	2015	2016E	2017E
Sales	265.7	272.6	232.9	103.2	109.4
EBITDA	10.0	2.7	1.1	4.8	6.0
Operating profit	8.0	0.5	(1.2)	2.7	3.6
PBT	6.5	(1.2)	(3.2)	2.6	3.4
EPS (p)	7.0	(0.4)	(4.1)	2.4	3.4
DPS (p)	0.0	0.0	0.0	0.0	0.2
Net (debt)/cash (£m)	(25.0)	(31.3)	(30.1)	(3.5)	(3.5)
Net debt/EBITDA (x)	2.5	11.6	27.4	0.7	0.6
P/E (x)	6.6	n.a.	n.a.	19.2	13.5
EV/EBITDA (x)	5.7	23.5	56.5	7.4	5.9
FCF Yield (%)	-19.1%	3.4%	-19.4%	-12.5%	-12.5%
Dividend Yield (%)	-	-	-	-	0.43

NB PBT Adj., pre revaluation, performance fee *Source: Hardman & Co Research*

Pharmaceuticals & Biotech



Source: Fidessa

Market data

EPIC/TKR	REDX
Price (p)	39.0
12m High (p)	126.7
12m Low (p)	34.0
Shares (m)	65.0
Mkt Cap (£m)	25.3
EV (£m)	13.6
Free Float*	68%
Market	AIM

**As defined by AIM Rule 26*

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

Company information

CEO	Neil Murray
CFO	Philip Tottey
Chairman	Frank Armstrong

0151 706 4747
www.redxpharma.com

Key shareholders

Directors	15.2%
Jon Moulton	16.7%
Axa Framlington	9.8%
NE VCF	5.4%
WCS Nominees	5.3%
Alderley Park Holdings	3.6%

Next event

13 April	General Meeting
June	Interims
Date	Event

Analysts

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Redx Pharma

Capital increase will help to maintain progress

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" 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

- **Proof of concept:** Redx programmes have delivered six proofs-of-concept to date. At the 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.

- **Capital increase:** At the time of going to press, REDX announced that it was raising £10m gross funds via a conditional Placing at 35p per share with existing and new institutional investors. A General Meeting has been called for 13th April to approve the funding which will be used to progress its pipeline.

- **Investment summary:** Redx offers access to a highly versatile discovery engine, geared specifically towards clinically differentiating its assets to achieve best-in-class and first-in-class status. The additional funds will be used to progress the porcupine program towards clinical trials in 1Q'17. Management expects also to validate its assets by securing at least one commercial partnership during fiscal 2016.

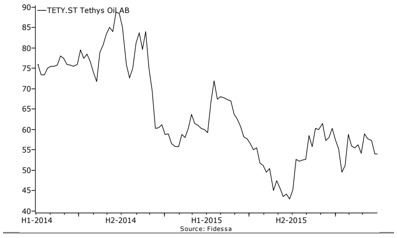
Financial summary and valuation

Year end Sept (£000)	2013	2014	2015	2016E	2017E	2018E
R&D investment	-8,246	-8,648	-8,900	-10,680	-11,748	-12,100
Underlying EBIT	-3,190	-4,000	-8,823	-11,837	-14,552	-15,798
Reported EBIT	-3,328	-4,014	-8,536	-12,455	-15,190	-16,456
Underlying PTP	-3,443	-4,249	-9,112	-12,049	-15,016	-16,498
Statutory PTP	-3,581	-4,263	-8,825	-12,667	-15,654	-17,156
Underlying EPS (p)	n/a	-7.5	-14.6	-14.0	-14.7	-16.1
Statutory EPS (p)	n/a	-7.6	-14.1	-14.8	-15.3	-16.8
Net (debt)/cash	-972	892	7,436	4,924	-10,555	-25,939
Shares issued	4,893	4,383	13,447	9,370	0	0
P/E (x)	-	-	-	-	-	-
EV/sales (x)	-	-	-	-	-	-
EV/EBITDA	-	-	-	-	-	-

Source: Hardman & Co Life Sciences Research

Tethys Oil AB

Oil & Gas



Source: Fidessa

Market data

EPIC/TKR	TETY.ST
Price (SEK)	52.0
12m High (SEK)	72.5
12m Low (SEK)	40.5
Shares (m)	35.54
Mkt Cap (MSEK)	1,848
EV (MSEK)	2,400
Market	NASDAQ OMX

Description

Tethys Oil is a Swedish energy company focused on exploration and production of oil. Tethys Oil's core area is the Sultanate of Oman, where the company is one of the largest onshore oil concession holders with a current net production over 12,000 bopd. Tethys Oil has additional exploration and production assets in onshore Lithuania and in France.

Company information

MD	Magnus Nordin
CFO	Morgan Sadarangani
Chairman	Dennis Harlin

+46 8 505 947 00
www.tethysoil.com

Key shareholders

Magnus Nordin	1.8%
MSIL IPB Client Account	9.2%
Mellon Omnibus 30%	3.4%
Tethys Oil AB	3.1%
CBNY-Norges Bank	2.8%
Försäkringsaktiebolaget	2.7%

Next event

Last week in April	Annual Report
3rd May	Q1 2016 Report
18th May	AGM
16th August	Q2 Report

Analysts

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Commodities remain sensitive

The two-month long rally in oil prices slipped as I write this on the news that Kuwait and Saudi Arabia are to resume oil production at the Khafji field. Commodity market traders and pundits alike obsess while the strong positive correlation between oil prices and market equity valuations continues unabashed. Investors would be wise to remember that the current situation serves to create equity undervalue in strong companies and while sharpening the future upswing as weaker production capacity crumbles.

- **Tethys' Production over 12,000 bopd:** Tethys' share of the production, before government take, from Blocks 3 and 4 onshore the Sultanate of Oman amounted in February 2016 to 357,805 barrels of oil, corresponding to 12,338 bopd.
- **Expect Commodities to remain choppy ahead of April 17 OPEC:** Traders will continue to trade the news before the OPEC meeting in Doha where major suppliers including Russia look to discuss an output freeze.
- **Annual Report:** Tethys annual report should be available around the last week in April.
- **Investment summary:** Tethys is an oil production and exploration company with a growing, fully self-financing portfolio of oil and natural gas assets. Its major holdings are located in Oman from where it currently produces in excess of 12,000 bopd net. Tethys' management has remained acutely focussed on controlling its cash flow, proving their core competency in this key aspect of oil company management and enabling Tethys to grow production throughout the commodity price downturn. Successful implementation of this strategy and ongoing cost cutting has and should continue to allow the company to develop and optimise its existing reserves while it explores its substantial acreage. We believe Tethys is acquisitive for material projects to add to its asset portfolio and that it is very well positioned for an uptick in commodity pricings.
- **Valuation:** Under review.

Financial summary and valuation

Year end Dec (MSEK)	2012	2013	2014	2015	2016E
Sales	584	592	1,027	905	
EBITDA	509	479	743	496	
Operating profit	336	285	393	194	
Profit before tax	314	240	340	198	
EPS (SEK)	9.11	6.76	9.56	5.66	
DPS (SEK)	0.00	0.00	3.00	1.00	
Production before government take (bbl)	1,346,854	1,663,069	2,804,240	3,539,631	Under review
Net sales (bbl)	776,248	850,926	1,464,228	1,805,056	
Average oil sales (USD$/bbl)	110.4	106.6	103.9	47.9	
P/E (x)	5.7	7.7	5.4	9.2	
Cash MSEK	248	289	1,816	2,165	

Source: Hardman & Co Research

Pharmaceuticals & Biotech

Source: Fidessa

Market data

EPIC/TKR	TRX
Price (p)	20.6
12m High (p)	22.5
12m Low (p)	12.7
Shares (m)	759.7
Mkt Cap (£m)	156.5
EV (£m)	136.0
Free Float*	38%
Market	AIM

**As defined by AIM Rule 26*

Description

TRX is a UK medical devices company in the field of regenerative medicine – 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. This has many potential clinical uses, such as heart valve replacement and Orthopaedic sports medicine.

Company information

CEO	Antony Odell
CFO	Ian Jefferson
Chairman	John Samuel

+44 (0)1904 567609
www.tissueregenix.com

Key shareholders

Directors	3.2%
Invesco	27.8%
Woodford Inv. Mgmt.	17.2%
Techtran Group	13.6%
Baillie Gifford	6.0%

Next event

May '16	FY results
2H'16	OrthoPure XM CE Mark
2H'16	OrthoPure XT CE Mark
	MarkFinal results

Analysts

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Tissue Regenix

US commercialisation plan evolving

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.

- **DermaPure coverage:** Since securing reimbursement in the US via a 'Q' code in January 2015, TRX has been granted Medicare coverage from 9 out of a possible 11 plan administrators, providing federal insurance for the over 65s. This is helping TRX achieve commercial traction, with sales having surpassed $1m.

- **SurgiPure XD:** TRX has received FDA 510(k) approval for SurgiPure XD, a product from porcine dermis that uses dCELL technology, for reinforcement of soft tissue and surgical repair of damaged or ruptured soft tissue, as occurs with hernias and body wall defects; the complex end of this market is a $300m opportunity.

- **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 the company's 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 the 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
R&D	-3,356	-4,049	-4,000	-6,000	-8,000	-8,000
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
Capital increase	8	5	18,972	0	20,000	0
P/E (x)	-	-	-	-	-	-
EV/sales (x)	-	-	-	-	22.4	9.2

Source: Hardman & Co Life Sciences Research

Titon Holdings Plc

Small, fresh and perfectly formed

Demand for the Group's core ventilation products is benefiting from dynamic building methods, tightening regulation and increasing focus on healthy building. What is more, almost half of Group revenue is international, including, unusually a manufacturing and distribution business in South Korea, which on a net profit basis contributes more than the UK

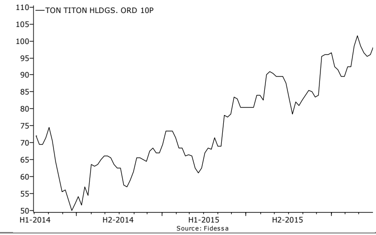
- **Strategy:** Titon was formed in 192, went public in 1988 and its founder John Anderson, remain a Non-Executive Director and Deputy Chairman (and a 16% shareholder) 44 years on. If not unique, it is certainly rare and beacon-like because many industry players have been subsumed into larger international.
- **Ethos and track record:** the Group's founder has also instilled an enduring ethos of excellence in quality, design, R&D and customer service, combined with an innate financial prudence; and in 28 years as a listed company, it has paid a dividend every single year
- **Valuation:** Titon has financially outperformed many of its peers, yet it remains the cheapest stock in our defined building materials sector on a derisory EV/EBITDA of less than 4x and there is a complementary yield above 3%
- **Valuation:** Titon is a constituent of the Hardman UK Building Materials Sector – which is having something of a renaissance (soon to be seven IPOs in three) and the Group is as cheap as wood chips.
- **Investment summary:** The following table has a maximum of 12 input lines (the current labels are only suggestions). Best to generate in your Excel workbook and then Copy/Paste Special/Formatted text.

Financial summary and valuation

Year end Dec (£000)	2013	2014	2015	2016E	2017E	2018E
Sales	15.7	19.3	22.3	24.0	25.0	26.0
EBITDA	0.88	1.70	2.13	2.30	2.40	2.49
Underlying EBIT	0.23	1.14	1.56	1.69	1.76	1.84
Reported EBIT	0.23	1.14	1.56	1.69	1.76	1.84
Underlying PTP	0.51	1.33	1.87	2.02	2.11	2.20
Statutory PTP	0.51	1.33	1.87	2.02	2.11	2.20
Underlying EPS (p)	2.9	8.5	12.6	13.4	14.0	14.6
Statutory EPS (p)	2.9	8.5	12.6	13.4	14.0	14.6
Net (debt)/cash	2.2	2.1	2.9	3.6	4.3	5.1
Shares issued	10.8	10.8	10.8	10.8	10.8	10.8
P/E (x)	34.3	11.6	7.8	7.3	7.0	6.7
EV/sales (x)	9.6	5.0	3.6	3.1	2.6	2.2

Source: Hardman & Co Research

FTSE sector



Source: Fidessa

Market data

EPIC/TKR	TON:LN
Price (p)	98.5
12m High (p)	104.5
12m Low (p)	61.5
Shares (m)	10.8
Mkt Cap (£m)	10.6
EV (£m)	7.2
Free Float*	97%
Market	FULL

**As defined by AIM Rule 26*

Description

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

Company information

Keith Ritchie	Chairman
David Ruffell	CEO

+44 (0)1206 731 801
www.titon.com

Key shareholders

Directors	16%
Shareholder 1	19%
Shareholder 2	16%
Shareholder 3	7%

Next event

7 April 2016 Investor Day

Analysts

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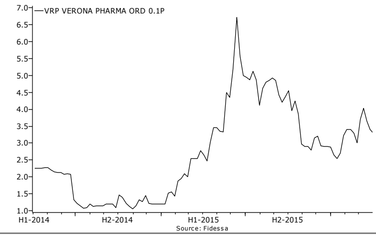
Pharmaceuticals & Biotech



Source: Fidessa

Market data

EPIC/TKR	VRP
Price (p)	3.4
12m High (p)	7.0
12m Low (p)	2.2
Shares (m)	1009.9
Mkt Cap (£m)	34.5
EV (£m)	28.4
Free Float*	60%
Market	AIM

**As defined by AIM Rule 26*

Description

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

Company information

CEO	Jan-Anders Karlsson
CFO	Biresh Roy
Chairman	David Ebsworth

0203 283 4200
www.veronapharma.com

Key shareholders

Directors	1.2%
Arthurian	20.8%
Aviva	18.0%
Vivo Capital	8.1%
Fidelity	7.6%

Next event

11 May	2015 Finals
10 June	AGM
2Q'16	RPL554 COPD Ph.IIa
Sept	Interims
4Q'16	RPL554+SoC combo

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Verona Pharma

Asthma trial data further de-risks RPL554

VRP is developing first-in-class drugs that treat unmet medical needs in respiratory disease. RPL554 is being fast-tracked to commercialisation by focusing on a $3.2bn market segment poorly serviced by existing drugs. Four out of five trials in the clinical development programme have been completed with positive outcomes, with the fifth due to report in 2Q'16. To date, RPL554 has been shown to have a strong bronchodilatory effect with minimal side effects and will certainly be attracting the attention of drug majors. Median prices paid for Phase II respiratory assets have headline valuations of $285m (£190m), equivalent to 19p per share.

- **RPL554 in asthma:** VRP has reported positive outcomes from a Phase IIa trial of nebulised RPL554 in 29 mild-to-moderate asthma patients which commenced in June 2015 and was fully recruited by early November 2015. This complex cross-over study compared RPL554 with two doses of salbutamol, or placebo.

- **Outcome:** The bronchodilatory effect of RPL554 was equivalent to that seen with the highest dose of nebulised salbutamol used to treat an asthma attack. No GI side effects or CV effects of concern were observed. These results suggest that RPL554 could be a useful addition for treating respiratory disease.

- **Full data set:** These early data add to confidence. However, a more complete set of results from this trial will be presented at a respiratory conference in May. Interest will be focused particularly on the dose-dependent broncholdilatory response and how this compares with the outcomes seen with salbutamol.

- **COPD trial:** The flow of data from RPL554 trials will continue with the release of a Phase IIa trial in COPD patients aimed at identifying if the drug has an additive bronchodilatory effect compared to standard of care. Recruitment of 30 patients was completed in November 2015 and the results are due soon.

- **Investment summary:** Historically, efficacy of PDE inhibitors has been positive, but putative drugs have failed due to side effects. To date, results with the new formulation of RPL554 have exceeded expectations, which augurs well for the pivotal Phase IIb trial due to start in early 2017. With big pharma constantly searching for new respiratory assets, RPL554 will definitely be on the radar.

Financial summary and valuation

Year end Dec (£000)	2012	2013	2014	2015E	2016E	2017E
Sales	0	0	0	0	0	0
Royalties	0	0	0	0	0	0
Underlying EBIT	-2,585	-2,630	-3,601	-8,585	-4,164	-4,418
Reported EBIT	-2,653	-2,817	-3,793	-9,102	-4,556	-4,831
Underlying PBT	-2,565	-2,627	-3,571	-8,543	-4,160	-4,491
Statutory PBT	-2,633	-2,814	-3,763	-9,060	-4,552	-4,902
Underlying EPS (p)	-0.8	-0.7	-0.3	-0.7	-0.3	-0.4
Statutory EPS (p)	-0.8	-0.7	-0.3	-0.8	-0.3	-0.4
Net (debt)/cash	961	604	9,970	2,188	-1,193	-4,579
Capital increase	1,002	1,802	13,103	100	100	100
P/E (x)	-	-	-	-	-	-
EV/sales (x)	-	-	-	-	-	-

Source: Hardman & Co Life Sciences Research

Notes

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