HARDMAN&CO.

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Feature article:

Share ownership: for the many, not the few?

The Office for National Statistics (ONS) is due to publish its most up-to-date survey on share ownership in mid-January, which identifies the beneficial owners and decision- makers of the stock market. Hardman & Co has worked together with the share analysis service, Argus Vickers, to jointly produce its own survey, which anticipates the conclusions of the ONS survey but goes into much greater detail. Our work does not use a sample of 200 quoted companies as the ONS historically has, but rather includes *every* UK quoted company. The ONS samples share registers every two years; our study uses six-monthly data points. Our survey also extends to shareholders on NEX; the ONS does not.

Investors from the rest of the world (i.e. ex-UK) continue to dominate share registers for Main Market-listed stocks on the London Stock Exchange but are less critical to AIM and NEX.

Retail investors continue to grow their ownership of quoted companies and are far more influential to price formation than many advisors and company managements understand.

We live in a new world, post-Woodford, where liquidity becomes part of the investment process in a way it never was before

In the post-Woodford (maybe we should denote it as BW and PW?) environment, liquidity has become critical to professional investors. Companies with low liquidity risk are being forgotten about – they need to engage with the widest investor audience. Just focusing on institutions is no longer going to cut it. Ignoring retail is not only unfair on these investors, but it neglects a key generator of liquidity. Such a path may prove ultimately fatal for the public life of a company.

This paper outlines a number of routes to improve investor engagement, diversify share registers and grow liquidity.

Conclusions

Looking at the trends in the Argus Vickers/Hardman & Co dataset, we find that:

- retail investors continue to grow their share of the market;
- Rest of the World (RoW) investors remain the largest shareholders on the Main Market; and
- AIM and NEX have a very different shareholder structure from the Main Market. On AIM, retail is only second to the RoW, and dominates NEX.

Company managements need to understand who is mainly responsible for share price formation – it's probably not who they think!

Our analysis of the London Stock Exchange dataset tells us that, in November 2019, 82% of AIM stocks and 75% of Main Market stocks had an average trade size below £10,000. While institutions may be the largest holders on the share register, they tend to trade in blocks, often infrequently. Even then, the price at which they trade starts from the price that already exists in the market, and our evidence suggests this is set, for most companies, by retail investors.

Finally, we consider ways for management to better engage with all investors to generate a fuller appreciation of the investment issues and improve that increasingly vital liquidity.

Setting the scene

The ONS has been charting the beneficial ownership of UK quoted companies every two years since the early 1960s[1].

The ONS surveys have identified three key themes over the past half century:

- The decline and subsequent recovery of the retail investor. Back in 1963, the man in the street owned 54% of all the shares in issue on the London Stock Market. By 2012, this had fallen to a low point of 10.1%. This has since recovered, with the most recent survey, for December 2016, showing a figure of 12.6%.

- The rise of overseas investors. In 1963, London was, essentially, a domestic market, even though it was home to international businesses like ICI and the old "colonials", such as rubber plantations. Big Bang, in 1986, was the start of a revolution. Since then, London has been seen as the listing venue of choice for companies from all over the world and, at the same time, has been transformed into a theatre for international investors. These investors owned 7% of the market in 1963, which shrunk further just before 1986; the most recent survey logged them at 53.9% (2016).

- Institutional investors discovered the equity market in the early 1960s and came to dominate it by Big Bang. Since then, their influence has declined, due partly to the rise of overseas investors, and partly because of a move to more risk-averse approaches by, for example, pension funds. They remain important, but less so than many advisors believe, particularly for generating liquidity and in price formation.

The purpose of this paper

Hardman & Co has worked with Argus Vickers, the complete intelligent shareholder analysis service, to produce our own survey of beneficial ownership. Partly, we have produced this survey to anticipate the results of the next ONS survey, which will consider the data for December 2018 and is due to be published on 14 January 2020; however, our survey provides a deeper level of analysis than the ONS version.

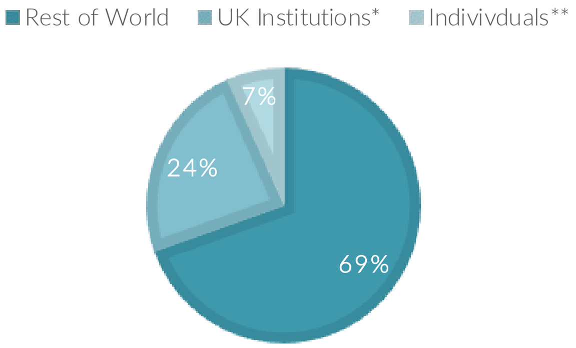
The results of our survey will differ from the ONS survey for a number of reasons, outlined in the *Methodology* section. However, the relative sizes of the different categories and their trends over time between the two surveys seem to be very similar.

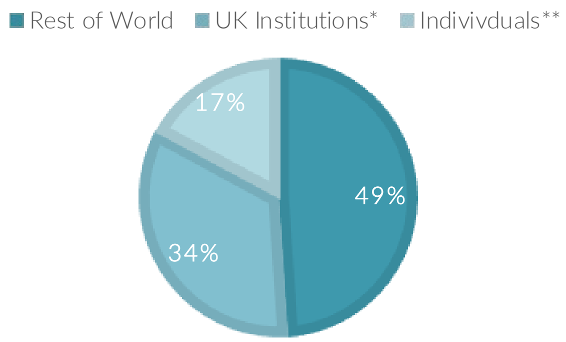
[1] Statistics Bulletin: Ownership of UK quoted shares: 2016

Share ownership as a whole

Ownership of the FTSE 100 is substantially different from the rest of the Main Market, as the two pie charts show below.

Ownership of the FTSE 100 at 30 June 2019	Ownership of the Main Market X-FTSE 100 at 30 June 2019





Source: Argus Vickers, Hardman & Co Research

To simplify the presentation in these charts, we have combined certain categories, explained in the footnote[2]. The full categories are displayed later.

RoW investors dominate the Main Market

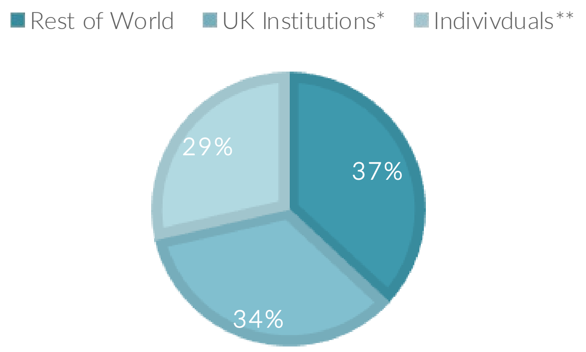
The charts above show ownership being dominated by RoW investors. The pie charts also demonstrate that individuals domiciled in the UK are clearly far more important to the Main Market, excluding the FTSE 100, than they are to the FTSE 100. As we will demonstrate later, their influence on liquidity and price formation is even more critical than these figures suggest. RoW investors dominate the Main Market.

AIM and NEX markets compared for the first time

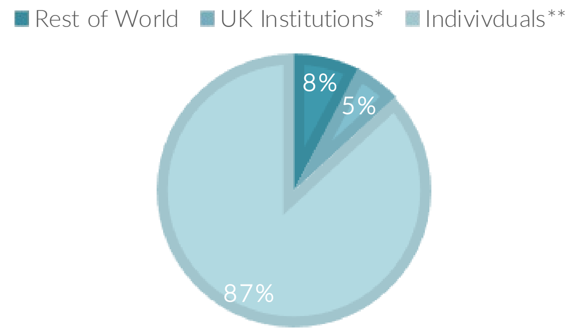
For the first time, we can reveal the picture for the NEX market. Some think of NEX as an alternative to AIM. The two markets may have many characteristics in common – for example, appealing to growth companies – yet the distribution of ownership by investor type is certainly very different. The retail investor dominates NEX, but accounts for nearly a third of AIM.

[2] UK institutions* includes investment trusts, unit trusts, other financial institutions, pension funds, Insurance companies, 'charities, churches, etc.' and banks; Individuals** combines individuals and private non-financial companies

Ownership of the AIM at 30 June 2019



Ownership of NEX at 30 June 2019



Source: Argus Vickers, Hardman & Co Research

The full split of shareholders by category is set out in the tale below.

Holdings of quoted companies by beneficial owner by value %, excluding "Unknowns"

At 30 June 2019	Whole LSE Market (ex NEX)	FTSE 100	Main Market (ex FTSE 100)	AIM	NEX
RoW	64.0%	69.6%	48.9%	36.9%	7.6%
Investment trusts	12.8%	11.3%	17.2%	17.1%	1.3%
Individuals	8.3%	5.3%	15.7%	27.1%	52.0%
Unit trusts	6.4%	5.7%	8.4%	9.1%	0.0%
Other financial institutions	3.1%	2.8%	3.7%	6.4%	0.4%
Pension funds	1.8%	1.9%	1.8%	0.7%	3.3%
Private non-financial companies	1.4%	1.3%	1.4%	1.5%	34.9%
Insurance companies	1.3%	1.3%	1.6%	0.4%	0.0%
Charities, churches, etc.	0.8%	0.7%	1.3%	0.6%	0.4%
Banks	0.0%	0.0%	0.0%	0.1%	0.0%
Public sector	0.0%	0.0%	0.1%	0.1%	0.0%
Total	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**

Source: Argus Vickers, Hardman & Co Research

Readers should note that it has not been possible to identify the beneficial holders of all stock. We have excluded "Unknowns" from the charts and table above. They represent 8.4% of the FTSE 100, 12.1% of the rest of the Main Market, 7.2% of AIM and 27.8% of NEX.

Share ownership trends – RoW investors

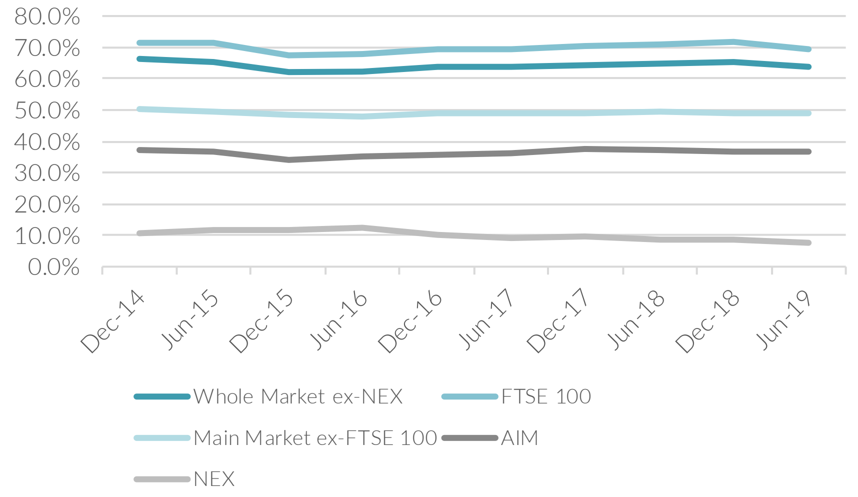
The latest ONS survey demonstrated the dramatic rise of RoW investors.

Our survey provides six-monthly data points over the past five years[3]. Broadly, we find that RoW investors continue to dominate the Main Market. Five years ago, they represented 71.7% of the FTSE 100, compared with 69.6% at 10 June 2019. For non-
FTSE 100, Main Market-listed stocks, the figures were 50.3% and 48.9%, respectively.

For the two markets targeted at smaller and mid-sized companies, RoW investors have never been so significant. Back in December 2014, they owned 37.3% of AIM, and a mere 10.9% of NEX. The share of AIM had fallen a little to 36.9% by June 2019, and to 7.6% of NEX. The trends are illustrated in the following chart.

[3] All the figures in this section are after taking out "Unknowns"

RoW investors' share over time



Source: Argus Vickers, Hardman & Co Research

Share ownership trends – retail investors[4]

The ONS has pointed out that the marked decline in the share of retail investors since 1963 seems to have come to an end. Our data suggest that its next survey will show a further uptrend in retail ownership.

Retail investors over time

	Dec-14	Jun-15	Dec-15	Jun-16	Dec-16	Jun-17	Dec-17	Jun-18	Dec-18	Jun-19
Whole LSE Market (ex NEX)	6.6%	6.9%	7.5%	7.3%	7.3%	7.7%	8.0%	8.1%	8.1%	8.3%
FTSE 100	3.8%	4.1%	4.4%	4.3%	4.2%	4.4%	4.6%	4.7%	4.7%	5.3%
Main Market (ex FTSE 100)	13.7%	13.9%	14.2%	14.0%	14.7%	15.3%	15.7%	15.6%	15.7%	15.7%
AIM	27.3%	28.1%	29.1%	28.7%	28.5%	28.8%	27.8%	27.2%	27.1%	27.1%
NEX	51.3%	50.6%	50.5%	50.5%	47.9%	48.3%	48.4%	46.3%	51.4%	52.0%

Source: Argus Vickers, Hardman & Co Research

The upcoming ONS survey will compare the data for December 2018 with the data for December 2016. The table above shows that retail ownership of the Main Market between those dates continued to expand. While the absolute percentages we have measured differ from the ONS survey, the direction is clear.

Share ownership and liquidity

Liquidity has become critical to professional investors post-Woodford

Liquidity has become a much more important factor for professional investors since the events that led to the winding up of the Woodford Equity Income Fund (WEIF). Both Mark Carney, the outgoing Governor of the Bank of England, and Andrew Bailey, the CEO of the Financial Conduct Authority and the newly appointed Governor, have expressed concerns about the threat to the financial system from illiquidity in the holdings of Open-Ended Investment Companies.

In a letter to Nicky Morgan, chair of the Treasury Committee of the House of Commons, on 18 June 2019, Andrew Bailey wrote of the approach of dividing fund liquidity into buckets. Regulators set limits to the proportion of a fund that can be

[4] Unlike the first four tables, this table considers the "individuals" category on its own and excludes private non-financial companies

held in private companies of 10%[5]. However, if a security is quoted on a stock exchange, there are no limits – every exchange is considered as liquid as any other, and there is no distinction drawn by the authorities between shares on the same exchange. The basket analysis (created by Link Solutions, the Authorised Corporate Director of WEIF) considers liquidity of holdings by buckets, regardless of whether they are private or public companies.

Looking at liquidity in buckets!

Link assessed the WEIF portfolio in four buckets, and each security in WEIF was allocated to a bucket according to the number of days it would take to liquidate the holding:

- Bucket 1 (1-7 days)
- Bucket 2 (8-30 days)
- Bucket 3 (30-180 days)
- Bucket 4 (180-360+ days)

Even before the WEIF issue, many fund managers used liquidity analysis as part of their investment decision. Post-Woodford, there is a renewed focus on the issue. A small fund has more flexibility in what it can hold than a multi-billion-pound fund, because its unit size will be much smaller.

Often, institutions cannot help to improve liquidity – the support of retail becomes key

Hardman & Co has a long history of analysing stock market liquidity[6]. We used to be told by some professionals in the capital markets that liquidity was irrelevant, since every share was always owned by someone. That argument has been dropped. Today, company managements need to be aware of the liquidity in their shares, since low liquidity may mean a reduced investor audience. Of course, if an institution is keen on a company it does not already own, but is held back from purchasing by poor liquidity, it is powerless to solve the liquidity hurdle itself. It must rely on other investors to do that. And guess who they might be? – retail investors.

Our survey shows that the private investor is even more important because, on most days of most months, for most companies, these investors set the share price.

Role of retail investors in price formation of most shares is unappreciated

Another way to consider the influence of retail investors on liquidity and share prices is to consider trading data. The table below examines the average trade size on the AIM and Main Market for the month of November 2019. This is not the average value traded in a day or a month; it is the average size in pounds of each individual trade. It is also the most recent data available as this article went to press.

[5] We are using the term "private" here, rather than "unlisted" or "unquoted", to avoid confusion. Section 1005 of the Income Tax Act 2007 sets out which stock exchanges meet the HMRC definition of either "listed" or "not listed" for the purposes of HMRC legislation. The AIM market is considered "not listed".

[6] For example, our June 2018 paper, *After the love has gone*, explored post-IPO liquidity. https://www.hardmanandco.com/after-the-love-has-gone/

Average trade size on AIM in November 2019		
Average trade size	Number of companies	% of all companies
More than £100k	7	0.8%
£80-100k	2	0.2%
£60-80k	6	0.7%
£40-60k	11	1.3%
£20-40k	55	6.3%
£10-20k	68	7.8%
£5-10k	153	17.6%
£0-5k	568	65.3%
Total	**870**	**100.0%**

Source: London Stock Exchange, Hardman & Co Research

In this particular month, for 82.9% of AIM companies, the average trade on the market was worth less than £10,000. Is there something unusual about November 2019? No, our latest paper using this dataset looked at November 2017, when 82% fell into this bracket. The previous paper to that showed that, in September 2015, the percentage of AIM companies with an average bargain size less that £10,000 was…82%.

Is there something unusual about AIM? The answer is "hardly". We publish, for the first time, the data for the Main Market, set out below. 75.1% of Main Market companies had an average trade size of less than £10.000 in November 2019.

Average trade size on the Main Market in November 2019		
Average trade size	Number of companies	% of all companies
More than £100k	12	1.1%
£80-100k	4	0.4%
£60-80k	7	0.6%
£40-60k	21	1.9%
£20-40k	61	5.6%
£10-20k	164	15.2%
£5-10k	314	29.1%
£0-5k	497	46.0%
Total	**1080**	**100.0%**

Source: London Stock Exchange, Hardman & Co Research

The data do not show what type of investor is responsible for each trade, but it must be sensible to draw the conclusion that the lower the average, the more important the retail investor probably is. A few companies get the issue. Some managements tell us that the largest part of their register is accounted for by institutions, which trade infrequently, often only when there is a placing or fund raising. Yet the price at which these large trades occur starts from the trades in the days and weeks before – trades by retail investors.

What can company managements do to improve investor engagement and liquidity?

Better engagement with all investor audiences, not just institutions, will improve that vital liquidity, enabling more professional investors to buy

Managements spend too much time courting institutions and too little time thinking about other investor audiences. One of the authors of this paper spent a large part of his career doing exactly that.

Managements should consider the following:

- We understand why it is normal to restrict attendance at results meeting to analysts. However, we recommend pasting the slide deck on the company's website. Why not add a recording of the meeting as well?
- Host capital markets days where all investors are presented to by the whole leadership team, not just the CEO and CFO.

- Engage a sponsored research house (such as Hardman & Co). Some have very extensive distribution, covering all types of investors, including retail. Although a few institutional brokers claim they cover retail, this generally means that work is available to high-net-worth investors. Investors have to find the research; it is not pro-actively marketed to them.

- Consider retail investor events such as Mello, attended by ca.700 private investors over two or three days. We have found the typical investor to be knowledgeable and serious.

- Understand your shareholder register and investigate the holders of your peers. If they hold a peer but not your shares, why is that? Is it through lack of knowledge perhaps? This is where a shareholder analysis service such as Argus Vickers can prove useful.

- When raising new money, work with execution-only private client broking platforms and organisations, such as PrimaryBid, to enable retail investors to participate on the same terms as institutions. A measure of the role that PrimaryBid can play in assisting public companies is the fact that it recently signed an agreement with the London Stock Exchange[7]. Also recently, Mark Payton, CEO of Mercia Technologies, was forced to apologise for not including a retail offer in a further fundraising[8].

Excluding retail investors from engagement is not only unfair on those investors, but may rebound on a company. Without those investors enhancing liquidity, institutions may not be able to buy the shares in the first place.

Methodology

Collecting the data

Argus Vickers combines detailed share registry work with a sophisticated database of the real beneficial owners behind nominee names

Argus Vickers employs a team of professionals to interrogate share registers. The law requires the share register of UK-domiciled companies to be a public document. Although the collection of all the data from share registers is a mammoth task in itself, it is only part of the work needed to produce the data used in this report. Much of a share register is held in nominee names; Argus Vickers uses its proprietary analytic tools and software to extrapolate the readily available information to understand who is behind these nominee names. For example, Rule 8 of the Takeover Code in the UK requires certain parties to disclose dealing in shares of a company involved in a bid situation and to reveal who is behind a nominee name. Indeed, the form that must be completed says specifically, "*The naming of nominee or vehicle companies is insufficient. For a trust, the trustee(s), settlor and beneficiaries must be named*". This is a key plank of the transparency, which is a hallmark of the British capital markets – parties cannot hide behind nominees, as is common in many other regimes. The detail about the beneficiary behind a nominee name revealed during a takeover bid is cross-referenced to uncover the beneficial owners on other companies' share registers.

Even so, there are still gaps, categorised as "Unknown" in the data, for a number of reasons. Many companies quoted in the UK are not domiciled here, and so their share registers may not be available to public scrutiny. The second main reason is that there may be a newly-registered nominee, or one that has never had to make a

[7] See interview with Marcus Stuttard, Head of UK Primary Markets and Head of AIM, London Stock Exchange and Anand Sambasivan, CEO and Co-Founder of PrimaryBid here: https://www.lsegissuerservices.com/spark/in-conversation-primarybid
[8] Financial Times, 29 December 2019, *Mercia contrite over small investors left out of £30m fundraising*. https://www.ft.com/content/ee75c2c2-228a-11ea-b8a1-584213ee7b2b

regulatory disclosure before – so the beneficiary behind the nominee cannot be discovered.

Categories

The ONS survey splits shareholders into various categories. We have worked with Argus Vickers to divide the data we have into the same categories.

What is an individual?

The ONS methodology paper defines individuals as "… individual persons resident in the UK (whether registered in their own name, through a PEP/ISA, or as clients of a stockbroker or fund management group); shares held for employee share ownership schemes; and shares held in trusts with named individual beneficiaries".

Why our results might differ from the upcoming ONS survey

- The ONS survey has historically used a sample of 200 companies quoted on the London Stock Exchange, from which its results are extrapolated. The Argus Vickers/Hardman & Co survey does not use extrapolation, but, instead, uses the data for EVERY quoted company. The difference in the datasets might explain varying outcomes.

- ONS only considers UK-domiciled companies. Our data include all companies listed in the UK, regardless of domicile. We focus on the data from Argus Vickers, excluding shareholdings where the beneficial owner cannot be discerned ("Unknowns"). This is a proxy for excluding non-UK-domiciled companies, since many of these unknown shareholdings are such companies where there is rather less public disclosure.

- We have tried to match the categories that the ONS use. However, we cannot be sure we have perfectly matched their definitions without cross-referencing their work with ours. It is unlikely that the ONS would agree to that! It is the direction of travel that is important.

- Our survey includes the data for NEX-quoted companies – the ONS survey does not cover NEX.

- The ONS survey is conducted once every two years, whereas our survey has data points for every six months back to 2014.

- Our most recent data point is June 2019; the ONS survey will be struck at December 2018.

For those who do want to compare the data, the table below sets out the detail. The most recent ONS survey published was for the data at December 2016. The table gives a comparison between the ONS and Argus Vickers/Hardman & Co work for the same date, the same categories of investors and the same stock universes.

Holdings of quoted companies by beneficial owner by value %, excluding "Unknowns": ONS and Argus Vickers/Hardman & Co compared

At 31 December 2016	Whole LSE Market (ex NEX)		FTSE 100		Main Market (ex FTSE 100)		AIM	
	ONS	AV/H & Co	ONS	AV/H & Co	ONS	AV/H & Co	ONS	AV/H & Co
RoW	53.9%	63.8%	56.0%	69.3%	48.5%	49.0%	42.8%	35.9%
Investment trusts	2.4%	11.8%	2.0%	10.9%	2.3%	14.5%	2.4%	13.8%
Individuals	12.3%	7.3%	9.5%	4.2%	19.4%	14.7%	29.7%	28.5%
Unit trusts	9.5%	7.0%	9.1%	5.8%	10.4%	10.2%	11.3%	12.0%
Other financial institutions	8.1%	3.5%	8.1%	3.3%	8.3%	3.9%	8.3%	6.0%
Pension funds	3.0%	2.8%	3.0%	2.7%	3.0%	3.1%	2.8%	1.1%
Private non-financial cos.	2.2%	1.6%	2.6%	1.6%	1.1%	1.4%	0.2%	1.4%
Insurance cos.	4.9%	1.5%	5.0%	1.5%	5.0%	1.4%	1.8%	0.5%
Charities, churches, etc.	1.0%	0.6%	1.1%	0.5%	0.7%	1.2%	0.4%	0.7%
Banks	1.8%	0.0%	2.0%	0.0%	1.2%	0.1%	0.4%	0.0%
Public sector	1.1%	0.0%	1.5%	0.0%	0.0%	0.5%	0.0%	0.1%
Total	**100.2%**	**99.9%**	**99.9%**	**100.0%**	**99.9%**	**100.0%**	**100.1%**	**100.0%**

Source: ONS, Argus Vickers, Hardman & Co Research

Clearly, there are differences between the datasets. One is not right and the other wrong. They are measuring slightly different things. The trends the two sets of data throw up seem to be consistent, though.

About Argus Vickers

Argus Vickers provides a complete Intelligent Shareholder Analysis service, which enables companies and investors to identify and track the real beneficial owners and fund managers behind a company share register.

The shareholders behind Nominee accounts are identified and their trading behaviour is tracked. This intelligence is key for building strong investor relationships, developing efficient corporate communication and identifying investment trends of fund managers and beneficial owners. The service enables an investment bank equity trader, corporate financier, institutional stockbroker or investor relations consultant to find out who owns 'what' and 'how much' within a public listed company. Argus Vickers' professional analysts and products deliver detailed and accurate fund manager and beneficial owner shareholding information behind all companies listed in the UK and Ireland.

www.argus-vickers.co.uk

About Hardman & Co

Hardman & Co is a rapidly-growing, innovative corporate research & consultancy business, based in London, serving the needs of both public and private companies. Its expert team of nearly 35 sector analysts and market professionals collectively has more than 400 years of experience. This depth of knowledge and a reputation for integrity have built trust with investors. With effective communication and carefully-targeted distribution, Hardman & Co helps companies disseminate their investment message to interested investors, as well as advise them on strategy.

Our smaller, boutique structure allows us to provide first-class customer service and to deliver a wide range of ad-hoc services for multiple clients with different needs.

www.hardmanandco.com

About the authors

Keith Hiscock is the Chief Executive of Hardman & Co

He is personally responsible for the firm's relationships with its corporate clients and also for corporate finance. In addition, he is the author of several articles tackling the issues facing companies in today's climate. Keith has 40 years' stockbroking experience and has developed long-standing relationships with many major institutional investors, including Private Client Brokers and Wealth Managers. He started his career at James Capel, at the time the top-ranked research house in London. He was a founding member of Schroder Securities and of Agency Partners, a leading research boutique house, and was a member of the five-man securities board at Evolution. Keith has also advised companies, large and small, on their relationships with the capital markets.

Yingheng Chen is a senior financial analyst at Hardman & Co

Yingheng has particular experience in the markets for palm oil, cocoa, citrus, coconut, Jatropha and sugar. She worked as a corporate finance analyst at the Agricultural Bank of China, and is fluent in Cantonese and Mandarin. She has a thorough understanding of the Chinese financial and business markets, as well as of those in the UK. Yingheng joined Hardman & Co in 2008. She holds the Chartered Financial Analyst Level 2 qualification, together with a BSc in Economics from the London School of Economics.

Ben Brougham is Head of Sales & Marketing at Argus Vickers

Ben has spent a career in the B2B media sector, as a publisher, and head of events, marketing and business development. His career includes spells at Euromoney Institutional Investor, Caspian Publishing, jointly running Real IR and Vitesse Media (now Bonhill Group Plc), publishers of *Growth Company Investor* and *What Investment*, and manager of the Quoted Company Awards. He started at Argus Vickers in February 2017, and heads up the sales function, with a focus on cultivating the knowledge and understanding on the value of shareholder intelligence.

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Richard Downard is Head of Business Development at Argus Vickers

Richard started his career as a trader in the London capital markets, working for firms such as BZW, Panmure Gordon and Jeffries. He has more than 25 years' experience covering global equities, specialising in UK/Pan-Euro/Canadian and Small/Mid-Cap and Natural Resources companies. Richard is a proven account relationship manager with extensive Institutional and Broker/Dealer contacts. He joined Argus Vickers in May 2016.

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Antonio (Tony) Martins is an IT Consultant at Argus Vickers

Tony Martins started his career as an Environmental Data Analyst, using Relational Data and Satellite images to analyse environmental impacts in areas of Hydroelectric Power Plants, working for companies such as CESP, CETESB and AXA-IM. With over 30 years' experience working in Database Technology, he has been creating and implementing processes and data analysis reports. Tony joined Argus Vickers in July 1999.

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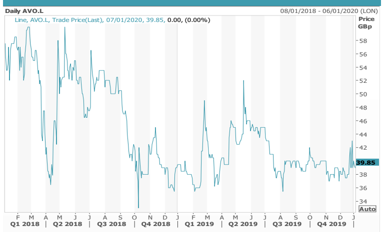
Company research

Priced at 6 January 2020 (unless otherwise stated).

Healthcare Equipment & Services



Source: Refinitiv

Market data

EPIC/TKR	**AVO**
Price (p)	**38.6**
12m High (p)	52.0
12m Low (p)	32.5
Shares (m)	243.8
Mkt Cap (£m)	94.0
EV (£m)	107.9
Free Float*	72%
Market	AIM

**As defined by AIM Rule 26*

Description

Advanced Oncotherapy (AVO) is developing next-generation proton therapy systems for use in radiation treatment of cancers. The first system is expected to be installed in Daresbury for CE marking. Meanwhile, Harley Street, London, is progressing to plan and will be operated via a JV with Circle Health.

Company information

Exec. Chairman	Michael Sinclair
CEO	Nicolas Serandour

+44 203 617 8728
www.avoplc.com

Key shareholders

Board & Management	9.6%
Liquid Harmony	19.0%
DNCA Investments	5.1%
P. Glatz	4.0%
Lombard Odier AM	3.4%
Brahma AG	3.3%

Diary

End-2020	First patient treatment

Analysts

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ADVANCED ONCOTHERAPY

2020 – targeting first patient treatment with LIGHT

AVO's goal is to deliver an affordable and novel proton beam therapy (PBT) system, based on state-of-the-art technology developed originally at the world-renowned CERN. 2019 was characterised by the achievement of a number of technical milestones, including the continuing integration and validation of all the module types that constitute LIGHT, and validation of the technical advantages of the accelerator over conventional machines. 2020 will see the first LIGHT machine set up in Daresbury (Cheshire) for treating first patients in order to gain CE marking, while continuing with the final building stage at its Harley Street site.

- **Strategy:** AVO is developing a compact and modular PBT system at an affordable price for the payor, financially attractive to the operator, and generating superior patient outcomes. AVO benefits from technology know-how developed by ADAM, a spin-off from CERN, and relies on a base of world-class suppliers.
- **Patient treatments by end-2020:** All the components that comprise LIGHT have now been delivered to the Daresbury site, including the patient positioning system. AVO is undertaking the on-site validation stage to get the first LIGHT accelerator ready for patient treatments by end-2020 for CE marking.
- **Harley Street:** During the validation process at the STFC site, the final stage of preparatory work at the Harley Street site is on schedule to accommodate the LIGHT machine in 2021. Due to the modularity of the accelerators, the different elements can be installed after the preparatory work has finished.
- **Technological advantages:** Throughout 2019 and 2020, AVO has been demonstrating the advantages of its linear proton accelerator over conventional cyclotrons. This was exemplified by the unique advantage of LIGHT for FLASH, allowing potentially a single patient visit and fewer side effects.
- **Investment summary:** AVO's ca.£94m market capitalisation equates only to the amount invested into LIGHT to date, reflecting neither the huge technical challenges already overcome, nor the market potential. A DCF analysis of the LIGHT prospects generates an NPV of at least 239p per share (fully-diluted). The disconnect between fundamental and market valuations offers an investment opportunity, which will reduce as AVO nears first patient treatments and completes its financing plan.

Financial summary and valuation

Year-end Dec (£m)	2017	2018	2019	2020E	2021E	2022E
Sales	0.0	0.0	0.0	21.5	65.5	111.5
Gross profit	0.0	0.0	-1.9	1.9	11.4	27.6
Administration costs	-11.2	-12.9	-15.7	-15.4	-15.8	-16.2
EBITDA	-12.7	-14.1	-21.4	-16.6	-10.5	1.6
Underlying EBIT	-13.1	-14.5	-21.8	-20.6	-14.6	-2.4
Statutory EBIT	-13.1	-14.5	-21.8	-21.2	-13.9	-0.7
Underlying PTP	-13.2	-16.5	-21.9	-22.3	-16.7	-4.6
Statutory PTP	-13.2	-16.5	-21.9	-22.9	-16.0	-2.9
Underlying EPS (p)	-17.0	-17.6	-14.0	-8.1	-6.0	-1.3
Statutory EPS (p)	-14.3	-18.9	-13.4	-8.3	-5.7	-0.6
Net (debt)/cash	0.9	-9.2	-2.0	-21.5	-31.0	-34.7
EV/EBITDA (x)	-	-	-	-	-	61.9

Source: Hardman & Co Life Sciences Research

ALLERGY THERAPEUTICS

2020: continuing to develop the US opportunity

AGY is a long-established specialist in the prevention, diagnosis and treatment of allergies. The Pollinex Quattro (PQ) platform, the ultra-short course subcutaneous allergy immunotherapy (AIT), continues to gain market share, despite its availability in the EU only on a "named-patient" basis. Several products are in clinical development, with the aim of moving the platform to full registration under the new regulatory frameworks in both the EU and the US. Management has a strategic plan to achieve the ultimate goal: to be the first to launch a fully-regulated subcutaneous immunotherapy (SCIT) product on the US allergy market.

- **Strategy:** AGY is a fully-integrated pharmaceutical company focused on the treatment of allergies. There are three parts to its strategy: continued development of its European business via investment or opportunistic acquisitions; the US PQ opportunity; and further development of its pipeline.

- **Trading update:** AGY usually releases a trading update at the end of January, covering results for its traditionally strong first half. The 1H'20 performance is expected to be strong, with underlying sales growth of ca.10% to £50.8m (£46.7m). The cash position was boosted by the $4.1m/£3.3m legal settlement.

- **US trial:** AGY is taking a stepwise approach to the US Grass MATA MPL Phase III study. The initial part will coincide with the 2020/21 allergy season and allow an interim analysis before moving to the second stage. The protocol has been adjusted based upon knowledge obtained from the Phase III Birch trial (B301).

- **Risks:** The risks inherent in subjective clinical trial outcomes were clear in the Phase III Birch trial. However, AGY prudently included an objective secondary endpoint of activity, which will be used in EU regulatory discussions about the way forward, and to adjust the pending US Phase III trial protocol.

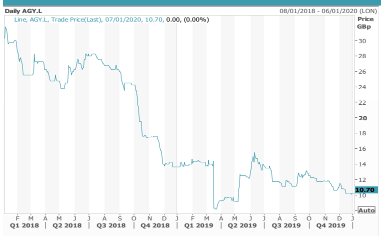
- **Investment summary:** Both strong trading updates and the positive settlement of the outstanding litigation have led to some share price recovery in the past six months. Despite the recovery to date, AGY still trades on an EV/sales of only 0.52x 2020E, reducing to 0.49x 2021E. In our view, this is too low for a company with a long and profitable product history, and well below the multiples commanded by direct competitors.

Financial summary and valuation

Year-end Jun (£m)	2017	2018	2019	2020E	2021E	2022E
Sales	64.1	68.3	73.7	80.0	86.0	92.0
R&D investment	-9.3	-16.0	-13.0	-16.0	-28.0	-15.0
Underlying EBIT	-3.6	-7.4	-2.2	-4.7	-16.2	-2.9
Reported EBIT	-2.6	-7.4	3.8	-1.4	-16.2	-2.9
Underlying PBT	-3.7	-7.5	-2.3	-4.8	-16.3	-3.1
Statutory PBT	-2.7	-7.5	3.7	-1.5	-16.3	-3.1
Underlying EPS (p)	-0.6	-1.3	-0.4	-0.9	-2.7	-0.6
Statutory EPS (p)	-0.4	-1.3	0.5	-0.2	-2.5	-0.5
Net (debt)/cash	18.8	12.5	25.0	20.6	1.7	-4.1
Equity issues	0.0	0.0	10.2	0.3	0.3	0.3
P/E (x)	-17.9	-8.3	-25.9	-12.0	-3.9	-16.8
EV/sales (x)	0.65	0.61	0.57	0.52	0.49	0.45

Source: Hardman & Co Life Sciences Research

Pharmaceuticals & Biotechnology



Source: Refinitiv

Market data

EPIC/TKR	AGY
Price (p)	10.5
12m High (p)	17.8
12m Low (p)	7.3
Shares (m)	636.2
Mkt Cap (£m)	66.8
EV (£m)	41.8
Free Float*	39%
Market	AIM

**As defined by AIM Rule 26*

Description

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

Company information

CEO	Manuel Llobet
CFO	Nick Wykeman
Chairman	Peter Jensen

+44 1903 845 820
www.allergytherapeutics.com

Key shareholders

Directors	0.7%
Abbott Labs	37.8%
Southern Fox	22.7%
SkyGem	15.6%
Invesco	4.5%

Diary

Jan'20	Trading update
Mar'20	Interim 2020 results

Analysts

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Grégoire Pavé 020 7194 7628
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Financials

Source: Refinitiv

Market data

EPIC/TKR	ARBB/ARBN
Price (p)	1,350/1,100
12m High (p)	1,428
12m Low (p)	1,033
Shares (m)	15.4
Mkt Cap (£m)	206
Loans to deposits 2020E	80%
Free Float*	42%
Market	AIM/NEX

*As defined by AIM Rule 26

Description

Arbuthnot Banking Group (ABG) has a well-funded and capitalised private bank, and has been growing commercial banking very strongly. It holds a 9.85% stake in Secure Trust Bank (STB).

Company information

Chair/CEO	Sir Henry Angest
COO/CEO Arb. Latham	Andrew Salmon
Group FD, Deputy CEO Arb. Latham	James Cobb

+44 20 7012 2400
www.arbuthnotgroup.com

Key shareholders

Sir Henry Angest	56.1%
Liontrust	6.5%
Miton Asset Mgt.	4.4%
Slater Investments	4.0%
R Paston	3.6%
M&G IM	3.5%

Diary

Feb'20	Pre-close trading update
End-Mar'20	FY'19 results

Analyst

Mark Thomas 020 7194 7622
mt@hardmanandco.com

ARBUTHNOT BANKING GROUP

2020: more of the same

The key message from the 3Q'19 trading statement was of continued strong franchise growth (loans +33% to £1.6bn, deposits +17% to £2bn – see our *18 October note*). We expect 2020 to deliver similar messages of growth, driven by new products and services (e.g. see testimonial below), funded by deposit growth. The full deployment of the capital raised by the partial sale of the STB stake sees rapid proft growth. Our view on credit is for a gentle market deterioration, with ABG's private bank seeing lumpy provisions and recoveries. A profitable, growing bank, trading around book value, appears anomalous.

- **Arbuthnot Commercial ABL testimonial:** On 21 November, one of ABG's new businesses received this testimonial: "We found ourselves constrained by sector policy limits with our previous funders. Arbuthnot has been a breath of fresh air by being willing to invest time to understand our business and the industry".
- **Peer news:** STB has seen a change in FD and NED. Rathbones announced the acquisition of the personal injury and court of protection business of Barclays Wealth (£500m FUM). Chares Stanley's results reported 72% growth in underlying profit. Brewin Dolphin's results saw a small fall in adjusted profits with heavy investment.
- **Valuation:** The average of our approaches is now £16.56, 1.3x 2020E NAV (up from £16.48 with a rise in the STB stake value). Two of our models use 2020 estimates, which include accelerated investment, as detailed in our 18 October note, but not the payback for it. The share price is around the 1H'19 NAV (1,321p).
- **Risks:** As with any bank, the key risk is credit. ABG's existing business should see below-market volatility, and so the main risk lies in new lending. We believe management is cognizant of the risk and, historically, has been very conservative. Other risks include reputation, regulation and compliance.
- **Investment summary:** ABG offers strong-franchise and continuing-business (normalised) profit growth. Its balance sheet strength gives it wide-ranging options to develop organic and inorganic opportunities. The latter are likely to increase in uncertain times. Management has been innovative, but also very conservative, in managing risk. Having a profitable, well-funded, well-capitalised and strongly-growing bank priced at around book value appears anomalous.

Financial summary and valuation

Year-end Dec (£000)	2015	2016	2017	2018	2019E*	2020E*
Operating income	34,604	41,450	54,616	67,905	77,471	89,588
Total costs	-35,926	-46,111	-54,721	-64,982	-71,595	-80,157
Cost:income ratio	104%	111%	100%	96%	92%	89%
Total impairments	-1,284	-474	-394	-2,731	-2,877	-2,965
Reported PBT	-2,606	-1,966	2,534	6,780	6,799	9,831
Adjusted PBT	2,982	1,864	3,186	7,416	8,799	11,831
Statutory EPS (p)	86.3	1,127.3	43.9	-134.5	37.5	54.0
Adjusted EPS (p)	13.5	17.1	47.5	40.3	48.2	64.6
Loans/deposits	82%	76%	75%	71%	79%	80%
Equity/assets	5.5%	18.5%	12.8%	9.0%	7.6%	7.1%
P/adjusted earnings (x)	100.0	78.9	28.4	33.5	28.0	20.9
P/BV (x)	1.69	0.89	0.88	1.05	1.06	1.04

*IFRS 9 basis; Source: Hardman & Co Research

Market data

EPIC/TKR	**Private**
Price (p)	N/A

Description

B-North is being developed to serve the sizeable UK SME lending market. It has state-of-the-art technology, a regional hub model and experienced managers to deliver a best-in-class service to SMEs and commercial brokers. It will be funded through best-buy retail deposit comparison websites. The model should have a material cost advantage over competitors, and credit risk is being tightly managed.

Company information

Chair	Ron Emerson CBE
CEO	Jonathan Thompson
CFO	David Broadbent

investor@b-north.co.uk
www.b-north.co.uk

Key shareholders

Directors/management	£1m+
Greater Manchester Combined Authority	Six-figure sum
HNWI	Balance

Diary

1Q'20	£2m capital raise
1Q'20	£20m capital raise
1Q'20	Banking licence (tbc)
2Q'20	Start lending
4Q'20	Start retail deposit-taking

The seed round top-up capital raise is £2m (13.3m shares at a price of 15p). Investors can subscribe on the Growthfunders (expected to close 15 January) and Crowdcube (expected to closel 7 January) platforms. Investors with £50k+ to invest can do so directly through contact with David Broadbent, Founder & CFO, Suite 20A, Manchester One, 53 Portland Street (expected to close end-January).

Analyst

Mark Thomas 020 7194 7622
mt@hardmanandco.com

B-NORTH

2020: a year of further building the franchise

We reviewed B-North in our initiation note *Unquoted SME lender with unique proposition* published on 16 December 2019. In summary, it is raising capital ahead of getting its banking licence (due spring 2020). It will then attack the huge, profitable and poorly-served SME lending market with i) state-of-the-art technology, ii) offering the £20bn+ p.a. commercial broker market unparalleled service and remuneration, and iii) experienced bankers based in empowered regional hubs. Delivery of this sees a highly efficient bank, close to its customers and with good controls; i.e a highly profitable, and valuable, business, in our view.

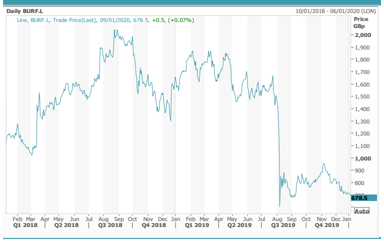
- **Near-term capital raise:** B-North is currently raising up to £2m through private subscriptions directly and via the *Growthfunders* and *Crowdcube* platforms. It anticipates raising a further £20m (through Berenberg), conditional on the approval of the banking licence due in March 2020. Further raises are planned.
- **"Reality Check":** We have reviewed the company assumptions and believe them to be ambitious but credible. We have considered the absolute performance and the level of lending that peers have achieved. Importantly, B-North has multiple options to address any volume shortfall – most at a modest cost.
- **Valuation:** Given the growth profile of the company and associated uncertainties, any valuation must be treated with extreme caution. In our initiation, we provided a range of approaches that, on average, indicate B-North's value in 2027 could be treble the amount of equity raised. We also provide a range of sensitivities.
- **Risks:** Credit risk is key for any bank. B-North will establish independent credit functions, and its technology brings it close to customers interfacing with their internal information. It has multiple options to address any loan growth shortfall. The economic cycle is important. The model is yet to be tested and capital raised.
- **Investment summary:** B-North is still at the pre-revenue stage. Its model should be low-cost and deliver a superior service to customers and intermediaries. It has a conservative credit culture and uses state-of-the-art technology, written from scratch, to originate, service and manage its business. Funding will be via the deep best-buy retail deposit comparison sites. The potential market is huge, profitable and under-served, and major incumbents have selectively become uncompetitive.

Financial summary and valuation – eight-pod scenario

Year-end Sep (£m)	2019	2020E	2021E	2022E	2023E	2024E	2025E	2026E	2027E
Net interest income	0.0	0.5	3.9	14.5	37.4	72.7	116.2	160.7	203.6
Costs	-2.9	-7.0	-18.0	-28.3	-36.0	-41.3	-45.5	-47.8	-52.0
Impairments	0.0	0.0	-0.2	-1.0	-3.1	-7.4	-8.9	-10.1	-10.7
Pre-tax profit	-2.9	-6.5	-14.2	-14.3	-0.6	25.9	64.7	106.5	145.4
Net interest margin	n.m.	1.4%	4.0%	4.3%	4.1%	4.2%	4.2%	4.3%	4.3%
Cost:income ratio	n.m.	n.m.	n.m.	n.m.	-93%	-55%	-38%	-29%	-25%
RoE	n.m.	-14%	-15%	-12%	0%	11%	20%	23%	24%
Loans	0	15	100	470	1,100	1,925	2,850	3,700	4,550
Deposits	0	0	12	329	770	1,424	2,098	2,745	3,393
Equity	1	72	86	102	154	217	298	393	502
Value at 12x P/E*	n.m.	n.m.	n.m.	n.m.	n.m.	252	629	962	1,303
Value v cum. equity issued	n.m.	n.m.	n.m.	n.m.	n.m.	1.1	2.3	2.9	3.4

*IFRS 9 basis; Source: Hardman & Co Research

Financials



Source: Refinitiv

Market data

EPIC/TKR	BUR
Price (p)	684.0
12m High (p)	1,870.0
12m Low (p)	605.0
Shares (m)	218.6
Mkt Cap (£m)	1,496
Total Assets ($m)	2,249
Free Float*	90%
Market	AIM

**As defined by AIM Rule 26*

Description

Burford Capital is a leading global finance and professional services firm focusing on law. Its businesses include litigation finance and risk management, asset recovery, and a wide range of legal finance and advisory activities.

Company information

CEO	Christopher Bogart
CIO	Jonathan Molot
CFO	Jim Kilman
Chairman	Sir Peter Middleton

+1 212 235 6820

www.burfordcapital.com

Key shareholders

Directors	8.7%
Invesco Perpetual	11.3%
Morgan Stanley & Co	6.1%
Coltrane Asset Management	5.2%
Mithaq Capital	5.1%

Diary

24 Mar	Full-year results

Analyst

Brian Moretta 020 7194 7622

bm@hardmanandco.com

BURFORD CAPITAL

Fulfilling promises

Burford has announced its decision to file for a US listing, a more detailed timetable for previously-announced governance changes, as well as some management changes. Progress is being made with finding new non-executive directors, and it is expected that there will be two nominations at the AGM in May. At the same time, the CEO, Chris Bogart, will be nominated to the board. Burford has decided to file for a full US listing on NYSE or NASDAQ with no new equity issuance. The intention is to file a registration statement with the SEC in April 2020, but the timing for the actual listing cannot be predicted. Burford is not allowed to give updates on the details in the meantime.

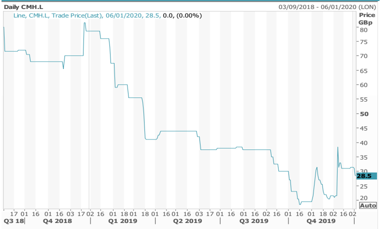
- **Management:** Burford has announced some changes, with the appointment of two Co-Chief Operating Officers, a Deputy Chief Investment Officer and Chief Administrative Officer. These will be members of the Management Committee, along with the CEO, CIO, CFO and Chief Strategy Officer.
- **Litigation:** A securities class action was filed against Burford in August 2019. This has now been withdrawn by the plaintiffs and dismissed in its entirety, and there is no litigation pending against Burford outside some small skirmishing associated with funded investments. This would seem to further support Burford's refutation of allegations made in the summer.
- **Risks:** The investment portfolio is highly diversified, with exposure to more than 1,100 claims. However, it retains some very large investments, which means revenue could be volatile, particularly in the smaller divisions. The Petersen case shows that this volatility is not simply a negative.
- **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, we anticipate that the litigation investment business will continue to produce strong earnings growth.

Financial summary and valuation

Year-end Dec ($m)	2013	2014	2015	2016	2017	2018
Revenue	60.7	82.0	103.0	163.4	341.2	420.7
Operating profit	42.5	60.7	77.2	124.4	285.1	353.0
Reported net income	2.6	45.4	64.5	108.3	249.3	317.4
Underlying net income	40.1	53.0	64.5	114.2	264.8	327.8
Underlying RoE	11.7%	12.1%	16.0%	22.1%	35.9%	30.1%
Underlying EPS ($)	0.20	0.26	0.32	0.55	1.27	1.50
Statutory EPS ($)	0.01	0.22	0.32	0.53	1.20	1.51
DPS ($)	0.05	0.07	0.08	0.09	0.11	0.13
Dividend yield	0.2%	0.3%	0.4%	0.4%	0.5%	0.6%
NAV per share ($)	1.72	1.87	2.12	2.22	3.19	5.50
P/E (x, underlying)	48.8	37.0	30.4	17.5	7.5	6.4
Price/NAV (x)	5.6	5.1	4.5	4.3	3.0	1.7

Source: Hardman & Co Research

Industrial Engineering



Source: Refinitiv

Market data

EPIC/TKR	CMH
Price (p)	28.5
12m High (p)	79
12m Low (p)	17
Shares (m)	8.3
Mkt Cap (£m)	2.3
EV (£m)	7.7
Free Float*	40%
Market	AIM

**As defined by AIM Rule 26*

Description

Chamberlin is a UK-based industrial engineering company operating in two divisions – Foundries and Engineering. Around 75% of sales are exported.

Company information

CEO	Kevin Nolan
CFO	Neil Davies
Chairman	Keith Butler-Wheelhouse

+44 1922 707100
www.chamberlin.co.uk

Key shareholders

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

Diary

Jun'20	Final results

CHAMBERLIN

Management actions yield further optimism

Most recent new contract awards are positive and cost-reduction measures continue to be implemented. Chamberlin is still on track strategically, and the group continues to develop its product offering most favourably. The group has been financially de-risked, and the shares remain attractively valued against the peer group on most methodologies, in our view.

- **Business developments most positive**: Recent contract awards for both the Walsall and Scunthorpe foundries, to Roadcraft and Thames Tideway Tunnel, respectively, will help to diversify the customer base away from the automotive industry, improve capacity utilisation and enhance revenues from 2020/21.
- **Trading outlook**. Trading in the second half will reflect new customer orders, as well as initiatives and the actions taken to restructure the cost base. The combination of higher revenues and a significantly lower cost base is expected to give rise to second- half operating margins of ca.3%.
- **Financial forecasts:** Our 2019/20 forecasts reflect the continued challenging operating environment and the company's view that results will move from the positive side of breakeven at the interim stage to a small loss for the year. Our 2020/21 forecasts are conservative, given the recent contract award.
- **Risks:** Potential risks include developments with the automotive industry, Brexit uncertainties, foreign currency and raw material price fluctuations. From a financial standpoint, the group has been significantly de-risked, with the Exidor disposal proceeds used to reduce the pension scheme deficit and pay down debt.
- **Investment summary:** The shares offer the opportunity to invest in a cyclical stock with good operational leverage and a valuation that we consider attractive compared with the peer group, but they are likely to tread water until significantly brighter prospects become more evident.

Financial summary and valuation

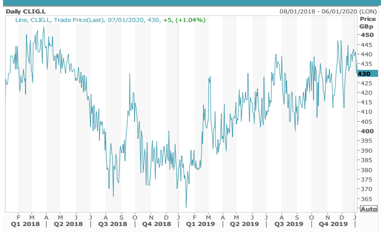
Year-end Mar (£m)	2018	2019	2020E	2021E
Sales	30.2	33.0	28.2	29.1
Gross profit	4.7	3.8	3.1	3.9
EBITDA	1.2	0.9	0.5	1.5
Underlying EBIT	-0.3	-0.9	-0.5	0.5
Underlying PBT	-0.7	-1.3	-0.6	0.4
Underlying EPS (p)	-12.3	-16.6	-5.8	4.0
Net (debt)/cash*	-8.9	-5.4	-4.6	-4.4
P/E (x)	-	-	-	7.1
EV/sales (x)	0.3	0.3	0.3	0.3

**Net debt after cash position; Source: Hardman & Co Research*

Analyst

Paul Singer 020 7194 7622
ps@hardmanandco.com

Financials



Source: Refinitiv

Market data

EPIC/TKR	CLIG
Price (p)	434.5
12m High (p)	447.0
12m Low (p)	360.0
Shares (m)	26.6
Mkt Cap (£m)	115.4
EV (£m)	101.6
Market	LSE

Description

City of London is an investment manager specialising in using closed-ended funds to invest in emerging and other markets.

Company information

CEO	Tom Griffith
CFO	Tracy Rodrigues
Chairman	Barry Aling

+44 207 860 8346
www.citlon.com

Key shareholders

Directors & staff	17.2%
Blackrock	10.1%
APQ Global Limited	5.5%
Cannacord Genuity	5.0%
Eschaton Opportunities Fund Management	4.8%
Polar Capital	4.1%

Diary

14 Jan	2Q FUM announcement
17 Feb	Half-year results
21 Apr	3Q FUM announcement

Analyst

Brian Moretta 020 7194 7622
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CITY OF LONDON INVESTMENT GROUP

Strong end to 2019

The final quarter of the year was a strong one for emerging markets, with December the stand-out month. The MSCI Emerging Markets Index rose over 7% during December and almost 12% over the quarter. This has supported a jump in City of London's FUM to $6.02bn, an increase of $676m over the figure at the end of September. The principal change in sentiment seems to be the improved prospects for a deal between the US and China over trade tariffs. However, it is likely that the ongoing relaxation of policy by the Federal Reserve and ECB has also played a role.

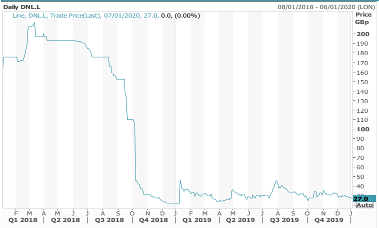
- **Management:** The previously-announced changes to the board took place at the end of 2019. Barry Olliff, founder and former Chief Executive, has stepped down from his executive role, but will continue to serve as an adviser for the next two years and as a non-executive director until October.
- **Board:** Carlos Yuste, Head of Business Development, has re-joined the board as an Executive Director. It has been announced that the Finance Director, Tracy Rodrigues, is taking a leave of absence and will step down from the board in March. The existing finance team will cover her duties during her absence.
- **Valuation:** The prospective P/E of 10.7x is at a discount to the peer group. The historical yield for the ongoing dividend of 6.2% is attractive and should, at the very least, provide support for the shares in the current markets.
- **Risks:** Although emerging markets can be volatile, City of London has proved to be more robust than some other EM fund managers, aided by its good performance and strong client servicing. Further EM volatility could increase the risk of such outflows, although increased diversification is also mitigating this.
- **Investment summary**: Having shown a robust performance in challenging market conditions, City of London is now reaping the benefits in a more supportive environment. The valuation remains reasonable. FY'17 and FY'18 both saw dividend increases and, unless there is significant market disruption, more should follow in the next few years.

Financial summary and valuation

Year-end Jun (£m)	2016	2017	2018	2019*	2020E	2021E
FUM ($bn)	4.00	4.66	5.11	5.36	5.60	6.02
Revenue	24.41	31.29	33.93	31.93	34.22	36.49
Statutory PTP	7.97	11.59	12.79	11.40	12.75	13.88
Statutory EPS (p)	23.3	36.9	39.5	34.9	40.8	44.4
DPS (p)	24.0	25.0	27.0	27.0	27.0	27.0
Special dividend (p)				13.5		
P/E (x)	18.6	11.8	11.0	12.4	10.7	9.8
Dividend yield	5.5%	5.8%	6.2%	9.3%	6.2%	6.2%

**2019 figures include a special dividend of 13.5p; Source: Hardman & Co Research*

Pharmaceuticals & Biotechnology



Source: Refinitiv

Market data

EPIC/TKR	**DNL**
Price (p)	**27.5**
12m High (p)	78.5
12m Low (p)	20.8
Shares (m)	84.5
Mkt Cap (£m)	23.2
EV (£m)	14.1
Free Float*	40%
Market	AIM

**As defined by AIM Rule 26*

Description

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

Company information

CEO	Martin Whitaker
CFO	Richard Bungay
Chairman	Peter Allen

+44 29 2068 2069
www.diurnal.co.uk

Key shareholders

Directors	2.4%
IP Group	40.7%
Finance Wales	13.6%
Polar Capital	7.8%
Richard Griffiths	5.9%
Oceanwood Capital	3.7%

Diary

11 Feb	Interim results
28-31 Mar	DITEST study details
1H'20	Alkindi AUS Approval

Analysts

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Dorothea Hill	020 7194 7626
	dmh@hardmanandco.com
Grégoire Pavé	020 7194 7628
	gp@hardmanandco.com

DIURNAL GROUP

2020 – Important value inflection points

DNL is a commercial-stage specialty pharmaceutical company focused on diseases of the endocrine system. Its two lead products target rare conditions where medical needs are currently unmet, with the aim of building a long-term "Adrenal Franchise". 2020 could be an eventful year as DNL is expecting a number of market authorisations in key territories. Also, in the US, we expect DNL to announce a partnership(s), likely in 1H'20, to support the sales and distribution of Alkindi and for the upcoming clinical studies with Chronocort. To deliver on these milestones, forecasts suggest new capital of at least £5m needs to be raised this fiscal year.

- **Strategy:** DNL aims to create a valuable "Adrenal Franchise" that can treat patients with chronic cortisol deficiency diseases from birth through to old age. Once Alkindi and Chronocort are established in the EU and the US, the long-term vision is to expand DNL's product offering to other related conditions.

- **Four market approval:** During 2020, DNL expects to receive four market authorisations for its products: Alkindi in Australia and NZ in 2Q/3Q'20 and also in Israel (mid-20). Importantly, DNL awaits the US approval for Alkindi for late 2H'20 as well as EMA positive feedback for market authorisation for Chronocort.

- **Look out for a US partner:** As disclosed at its results meeting, DNL is in discussions for a US partner for the sales and distribution of Alkindi as well as clinical support for the Phase III (CAH) and Phase II (AI) Chronocort trials. Discussions are ongoing and we expect an announcement to be made in 1H'20.

- **Scientific publications:** More detailed analysis of clinical trial results is expected. At the ENDO 2020 conference in San Francisco (28-31 March), more details on the DITEST results will be revealed. Also, an independent study from the University of Newcastle about the use of Alkindi is in preparation.

- **Investment summary:** Alkindi, a cortisol replacement therapy designed for children under 18 years of age, is DNL's first drug on the market. It is expected to be followed by Chronocort for adults – a larger market – which now has a clear regulatory pathway in both Europe and the US. Despite this, the share price is still languishing well below valuations determined by peer group and DCF (202p) analyses, possibly due to the need for more capital in 2020.

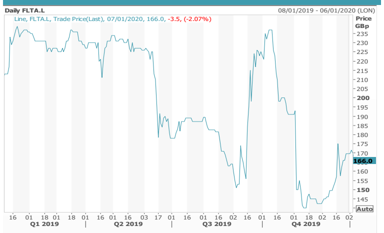
Financial summary and valuation

Year-end Jun (£m)	2017	2018	2019	2020E	2021E	2022E
Sales	0.00	0.07	1.04	2.14	5.56	15.99
SG&A	-3.23	-6.21	-5.83	-7.52	-9.22	-10.92
R&D	-8.34	-10.02	-8.69	-9.43	-8.96	-11.20
EBITDA	-12.07	-16.97	-14.50	-16.00	-14.25	-8.73
Underlying EBIT	-12.08	-16.98	-14.53	-16.02	-14.27	-8.76
Statutory EBIT	-12.08	-16.98	-14.53	-16.02	-14.27	-8.76
Underlying PBT	-12.16	-17.11	-14.40	-15.98	-14.27	-8.83
Statutory PBT	-12.16	-16.91	-14.40	-15.98	-14.27	-8.83
Underlying EPS (p)	-18.04	-27.16	-14.54	-12.88	-11.27	-5.69
Statutory EPS (p)	-18.04	-26.78	-19.70	-12.88	-11.27	-5.69
Net (debt)/cash	16.37	17.28	9.15	0.29	-13.82	-22.46
Equity issues	0.05	13.40	5.53	5.57	0.00	0.00

Source: Hardman & Co Life Sciences Research

HARDMAN&CO.

Support Services



Source: Refinitiv

Market data

EPIC/TKR	**FLTA**
Price (p)	164
12m High (p)	245
12m Low (p)	133
Shares (m)	29
Mkt Cap (£m)	48
EV (£m)	47
Free Float*	33%
Market	AIM

As defined by AIM Rule 26

Description

Filta Group (Filta) provides cooking oil filtration, fryer and drain management services in North America and Europe to commercial kitchens.

Company information

CEO	Jason Sayers
CFO	Brian Hogan
Chairman	Tim Worlledge

+44 1788 550100
www.filtaplc.com

Key shareholders

Directors	67%
Gresham House	12.5%
Blackrock	5.6%
Ennismore FM	5.0%
Cannacord Genuity	3.7%

Diary

Apr'20	Preliminary results
Sep' 20	Interim results

Analyst

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js@hardmanandco.com

FILTA GROUP

Cleaning up

Filta provides cleaning services to commercial kitchens in North America, the UK and, more recently, mainland Europe. The company reported that EBITDA for 2H'19 would be similar to 1H'19, and thus below our expectations. The cost-saving benefits of the Watbio acquisition are still taking longer than expected. Revenue continues to be on track, and some extra investment has been made in UK sales staff to maximise the revenue opportunities.

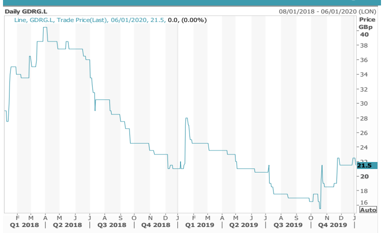
- **Strategy:** Filta provides a professional service, via franchisees, to kitchens to filter their cooking oil – improving taste and saving money. Grease emanating from commercial kitchens also causes problems, and needs managing. There is scope for Filta to become the major player in the UK grease management business.
- **Outlook:** In November last year, we cut our FY19E EBITDA from £4.2m to £3.3m, and left FY20E unchanged. The cut to EPS was more substantial, due to operational and financial gearing, as well as a proportionately higher tax charge. The cuts do not reflect any weakening in the business prospects, which we still see as very attractive.
- **Valuation:** Filta has no directly comparable companies. We have used a DCF to derive a value range of 217p to 283p per share, using a 10% discount rate and a mid-term (2021-25) growth rate of between 6% and 12%. Our central estimate is 260p. No account is taken of future added-value acquisitions.
- **Risks:** As well as normal commercial risks, Filta is dependent on its franchisee behaviour, which it can influence via training. The Watbio acquisition risks are now fully understood, but any future deals will inevitably involve managing some unknowns. It is exposed to FX risk, too, although most costs are local.
- **Investment summary:** Filta is an attractive business, in our view, combining the capital-light franchise model in North America and Europe with company-owned operations in the UK. With only a tiny proportion of the market currently served and with little or no competition, we see potential for years of profitable growth ahead. Please see our initiation report here, published on 3 April 2019.

Financial summary and valuation

Year-end Dec (£000)	2015	2016	2017	2018	2019E	2020E
Revenue	7,925	8,469	11,547	14,213	25,100	27,500
EBITDA	594	1,193	2,116	2,642	3,300	5,250
Underlying EBIT	450	1,011	2,059	1,941	1,330	3,300
Reported EBIT	450	(249)	1,699	1,782	980	3,300
Underlying PTP	376	932	1,968	1,900	1,030	3,100
Statutory PTP	376	(329)	1,608	1,742	680	3,100
Underlying EPS (p)	1.39	3.66	5.05	5.39	1.32	8.11
Statutory EPS (p)	1.39	-1.51	3.85	4.88	0.13	8.11
Net (debt)/cash	-619	3,271	2,992	2,040	500	2,848
Shares issued (m)	22	23	27	29	29	29
P/E (x)	137.5	52.2	37.8	35.4	124.6	20.2
EV/EBITDA (x)	71.0	33.6	23.2	20.1	14.3	8.5

Source: Hardman & Co Research

Pharmaceuticals & Biotechnology



Source: Refinitiv

Market data

EPIC/TKR	GDR
Price (p)	22.2
12m High (p)	30.0
12m Low (p)	13.0
Shares (m)	34.9
Mkt Cap (£m)	7.7
EV (£m)	11.1
Free Float*	52%
Market	AIM

*As defined by AIM Rule 26

Description

Genedrive is a disruptive platform designed to bring the power of central laboratory molecular diagnostics to point-of-care/near-patient settings with a low-cost device offering fast and accurate results. It focuses on diagnostics for acute hospital settings and for serious infectious diseases, such as hepatitis C and tuberculosis.

Company information

CEO	David Budd
CFO	Matthew Fowler
Chairman	Ian Gilham

+44 161 989 0245
www.genedriveplc.com

Key shareholders

Directors	1.8%
Calculus	18.9%
M&G	14.8%
BGF	12.5%
Odey	5.4%
River & Merc.	5.2%

Diary (calendar year)

1H'20	WHO HCV-ID prequalification decision

Analysts

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Dorothea Hill 020 7194 7626
dmh@hardmanandco.com

Grégoire Pavé 020 7194 7628
gp@hardmanandco.com

GENEDRIVE PLC

Calendar 2020 – European entry

Genedrive plc (GDR) is a commercial-stage biotech focused on point-of-care molecular diagnostics. Its Genedrive® molecular diagnostic platform offers low-cost, simple-to-use devices for highly sensitive and specific testing. The rapid analysis of samples aids real-time decision-making, whether in clinical, public health or biothreat applications. GDR is developing a portfolio of assays for the Genedrive device, with its hepatitis C virus (HCV) and pathogen detection assays already on the market. GDR should enter European markets in 2020, with the anticipated launch of its CE-marked assay for screening against adverse reactions to antibiotics.

- **Strategy:** Now that the Genedrive technology platform has received CE marking, management has completely re-focused the company onto the commercialisation pathway for gene-based diagnostics in hepatitis C, TB, pathogen and Antibiotic-Induced Hearing Loss (AIHL).

- **Transitional year:** News related to the commercialisation of the RNR1 assay for AIHL is expected throughout 2020 towards an autumn launch. Significantly, this would be GDR's third test on the market and its first in Europe, with successful commercialisation being its first validation by developed healthcare systems.

- **AIHL news flow:** The implementation phase of the AIHL programme is underway, with recruitment to the NHS "PALOH" study ongoing. News could include first patient treated, top-line analytical performance data, and partnership deals for both UK and European launches. CE marking was achieved in 2019.

- **Risks:** The Genedrive platform has been validated by CE marking of the HCV-ID and RNR1 kits, repeat orders from the US DoD, and funding from Innovate UK and the NIHR. The key risks are commercialisation in undeveloped global health markets and funding for anti-viral or anti-microbial drugs.

- **Investment summary:** Genedrive technology ticks all the boxes of an "ideal" in vitro diagnostic that satisfies the need for powerful molecular diagnostics at the point of care/need. The hepatitis C market is a large global opportunity – should market factors improve, the HCV-ID test has excellent potential. With strong partners, e.g. the NHS, being signed in both developed and developing markets, and several product lines in development, GDR has a solid growth strategy.

Financial summary and valuation

Year-end Jun (£000)	2017	2018	2019	2020E	2021E	2022E
Group sales	5,785	1,938	2,362	2,992	4,923	9,215
Underlying EBIT	-4,913	-5,264	-4,449	-4,271	-1,928	665
Reported EBIT	-7,292	-7,375	-4,010	-4,271	-1,928	665
Underlying PBT	-5,417	-5,782	-5,002	-5,001	-2,683	-98
Statutory PBT	-7,487	-7,788	-4,518	-5,001	-2,683	-98
Underlying EPS (p)	-23.6	-26.9	-15.8	-12.1	-5.7	1.3
Statutory EPS (p)	-34.9	-31.9	-14.0	-12.1	-5.7	1.3
DPS (p)	0.0	0.0	0.0	0.0	0.0	0.0
Net (debt)/cash	-70	-2,096	-3,334	-6,948	-8,228	-6,660
Capital increases	6,023	0	3,243	193	111	0
P/E (x)	-0.9	-0.8	-1.4	-1.8	-3.9	17.7
EV/sales (x)	1.9	5.7	4.7	3.7	2.2	1.2

Source: Hardman & Co Life Sciences Research

Financials

Source: Refinitiv

Market data

EPIC/TKR	MCL
Price (p)	132.0
12m High (p)	186.0
12m Low (p)	105.0
Shares (m)	131.0
Mkt Cap (£m)	172.9
EV (£m)	188.1
Free Float*	60%
Market	AIM

*As defined by AIM Rule 26

Description

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

Company information

CEO	Paul Smith
CFO	Andrew Hayward
Non-Exec. Chairman	Stephen Karle

+44 330 045 0719
www. morsesclubplc.com

Key shareholders (20 Nov'19)

Hay Wain	36.41%
Premier Miton Group	13.71%
J.O. Hambro	6.90%
Artemis Inv. Mgt.	5.82%
Legal & General	4.01%
Canaccord Genuity	3.49%

Diary

End-Feb'20	Trading statement

Analyst

Mark Thomas 020 7194 7622
mt@hardmanandco.com

MORSES CLUB PLC

2020: delivery of ambitious acquisition goals will be key

As detailed in our *21 October report*, MCL's core HCC division again performed strongly in 2019. Market volumes remained subdued, but 11% underlying profit growth was delivered, with efficiency gains and good credit (20% reported adjusted growth). More of the same, steady delivery is expected for 2020. We believe the key driver to financial and share price performance will be MCL meeting its ambitious guidance in the acquired businesses, which, to date, have required incremental investment, and where initial lending was slightly behind track, impacted by short-term factors. Management has outlined a clear, customer-demand-driven strategy in its area of competitive advantage.

- **Outlook:** The management outlook statement was for trading in line with expectations, and we do not expect material changes in consensus numbers. Importantly, the stretching targets for the online business have been reiterated, with guidance of pre-tax, pre-interest profits in the range of £3m-£5m for FY'21.
- **Peer news:** Non-Standard Finance's mid-November *trading update* saw company- specific reductions in current-year and prospective performance, as well as accounting-related profit adjustments (see our note of *18 November*). Amigo's *results* saw a small share price rise (2%), with a large gain (10%) on *board changes*.
- **Valuation:** We detailed our valuation approaches in *Bringing home collect into the 21st century*, published on 2 February 2017. The range in absolute valuation methodologies is now 167p to 197p. Peer valuations remain of limited value, given specific issues affecting each company.
- **Risks:** Credit risk is high (albeit inflated by accounting rules), but MCL adopts the right approach to affordability and credit assessment. Regulatory risk is a factor, although high customer satisfaction suggests a limited need for change. MCL was the first major HCC company to get full FCA authorisation.
- **Investment summary:** MCL is operating in an attractive market. It has a dual-fold strategy that should deliver an improved performance from existing businesses and new growth options. It conservatively manages risk and compliance, especially in new areas. The self-employed agent network is the competitive advantage over remote lenders. We forecast a February 2021 P/E of 9.5x and a 7.6% February 2021 dividend yield, with 1.5x cover (adjusted earnings).

Financial summary and valuation

Year-end Feb (£m)	2016	2017	2018*	2019*	2020E*	2021E*
Reported revenue	90.6	99.6	110.4	117.0	136.5	151.7
Total impairments	-18.8	-24.3	-24.7	-26.2	-30.0	-40.2
Total costs	-53.4	-56.7	-65.6	-67.1	-83.6	-85.1
EBITDA	19.3	19.9	20.1	23.7	22.9	26.4
Adjusted PBT	16.8	17.7	18.6	22.0	19.9	22.9
Statutory PBT	10.4	11.2	15.5	20.2	16.5	21.5
Statutory EPS (p)	6.1	6.6	9.7	12.5	10.3	13.6
Adjusted EPS (p)	10.2	10.8	11.4	13.6	12.2	14.0
P/adjusted earnings (x)	12.9	12.2	11.6	9.7	10.8	9.5
P/BV (x)	3.1	2.8	2.6	2.4	2.3	2.2
P/tangible book (x)	3.8	3.3	2.9	2.8	3.1	2.9
Dividend yield	n.m.	4.8%	5.3%	5.9%	6.2%	7.6%

*IFRS9 basis (2018 pro-forma); Source: Hardman & Co Research

Financials

Source: Refinitiv

Market data

EPIC/TKR	**NSF**
Price (p)	22.5
12m High (p)	75.0
12m Low (p)	16.9
Shares (m)	312.0
Mkt Cap (£m)	70
EV (£m)	322
Free Float	99%
Market	Main

Description

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

Company information

CEO	John van Kuffeler
CFO	Nick Teunon
Non-Exec. Chair	Charles Gregson

+44 20 38699026
www.nonstandardfinance.com

Key shareholders (29 Nov'19)

Invesco	25.3%
Alchemy	19.2%
Aberforth Partners	17.6%
Marathon Asset Mgt.	12.35%

Diary

16 Jan	Capital markets day

Analyst

Mark Thomas 020 7194 7622
mt@hardmanandco.com

NON-STANDARD FINANCE

2020: all about operational delivery

NSF's November *trading statement* led to a 20%+ cut in consensus estimates for both FY'19 (mainly short-term operational issues and a step change from changing impairment assumptions) and future years (lower loan growth targets). We reviewed the issues in detail in our note, *Trading update: understand the accounting*, published on 18 November 2019. This, the aborted Provident Financial bid and the now-sold Woodford stake affected sentiment. We still expect 2021 adjusted profits at 2x the level of 2018. Boring operational delivery in 2020, which increases confidence in estimates being delivered, may see a share price recovery from a ca.3-4x P/E rating.

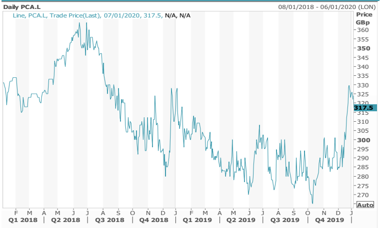
- **News:** Following the trading statement share price fall, we have seen significant director buying, with the CFO designate more than trebling his holding from 40k shares to 140k. The current CFO also increased his holding. The role will hand over post the March results. On 3 January, an NED bought a further 38k shares.
- **Peer news:** There has been no recent news of note from Morses Club. Provident Financial's new CFO has been hired from Secure Trust Bank. Amigo's *results* saw a small share price rise (2%), with a large gain (10%) on *board changes*. Ramsdens' *results* in early December saw a 10% share price rise on the day.
- **Valuation:** Our absolute approaches now indicate a range of 79p-85p. On the current price, the 2020 prospective P/E is 3.7x, for a business whose impairment provisioning already reflects a significant downside scenario. The covered yield is now double-digit. Our forecasts are slightly above consensus (2020 P/E 4.0x).
- **Risks:** Credit risk remains the biggest threat to profitability (although this is mitigated through high risk-adjusted margins), and NSF's model accepts higher credit risk where a higher yield justifies it. Regulation is a market issue; management is taking appropriate action to mitigate this risk.
- **Investment summary:** Substantial value should be created, as i) competitors have withdrawn, ii) NSF is well capitalised, with committed debt funding until 2023, iii) macro drivers are positive, and iv) NSF has a highly experienced management team, delivering operational efficiency without compromising the key F2F model. Investors are paying 5.5x current-year estimated earnings and getting a dividend yield of 13.3%, driven, we believe, by the sentiment issues above.

Financial summary and valuation

Year-end Dec (£000)	2017	2018	2019E*	2020E*	2021E*
Reported revenue	121,682	168,128	184,013	202,836	224,607
Total impairments	-28,795	-42,688	-47,513	-51,707	-55,623
Total costs	-67,706	-87,792	-93,281	-98,358	-106,137
EBITDA	25,181	37,648	43,219	52,772	62,847
Adjusted PBT	13,203	14,769	15,822	23,281	29,881
Statutory PBT	-13,021	-1,590	-19,835	20,152	28,350
Pro-forma EPS (p)	3.44	3.70	4.10	6.15	7.94
DPS (p)	2.20	2.60	3.00	3.10	3.95
P/adjusted earnings (x)	6.5	6.1	5.5	3.7	2.8
P/BV (x)	0.3	0.3	0.4	0.4	0.3
P/tangible book (x)	0.9	1.2	1.5	1.2	0.9
Dividend yield	9.8%	11.6%	13.3%	13.8%	17.6%

** IFRS9 basis; Source: Hardman & Co Research*

Real Estate



Source: Refinitiv

Market data

EPIC/TKR	**PCA**
Price (p)	322
12m High (p)	350
12m Low (p)	270
Shares (m)	45.9
Mkt Cap (£m)	147.7
EV (£m)	244.7
Market	Main, LSE

Description

Palace Capital is a real estate investor, diversified by sector (office, industrial predominate) and location, but not in London and with minimal exposure to retail. There is an emphasis on city-centre locations. The York development site comprises 6% of assets.

Company information

Chairman	Stanley Davis
CEO	Neil Sinclair
CFO	Stephen Silvester
Executive director	Richard Starr

+44 20 3301 8330
www.palacecapitalplc.com

Key shareholders

AXA	7.7%
Miton	7.4%
J.O. Hambro	7.3%
Stanley Davis (Chairman)	3.6%

Diary

Jun'20	Final results
Aug'20	AGM

Analyst

Mike Foster 020 7194 7633
mf@hardmanandco.com

PALACE CAPITAL

The portfolio positioning pays off

Last issue's title was "portfolio positioning pays off" as regarding the recent results' success. Leases were renewed at an average of 3% above ERV. The reason why the message is the same in 2020 is twofold: i) Palace's strong track record of active and successful asset management; and ii) the strength of the prospects in the north of England. A number of Palace Capital's largest investment assets are located here (central Newcastle, Manchester, Liverpool offices); so too is its important mixed-use development in the centre of York, which sells ahead of budget. With or without external market assistance, all these are strongly placed.

- **Track record:** We note the trend that NAV rose from 357p per share at end-2014 to 434p at end-2017. More recently, Palace Capital has issued equity, but while this dampens NAV per share initially, it has provided capital for a strong and clearly visible pipeline of asset construction and enhancement.
- **FY'21E upgrade:** FY'21E will see HQ apartment sales proceeds and an income stream from HQ commercial assets. We have brought this income forward slightly – into FY'21 from FY'22 former estimates – as a direct result of the announcement of results of early sales post launch, which were highly encouraging.
- **Recent disposal:** The 9 December announcement of the completion of the two-stage disposal of Priory House, Birmingham, closed a transaction at 25% above the £2.1m book value and, incidentally, saved the company £0.17m p.a.
- **A track record of outperformance**: Palace Capital focuses on non-London commercial. Portfolio occupancy is 86%, with the voids predominantly being "tactical vacancies as we progress our value enhancing capex strategy." This is important: some income is sacrificed to optimise overall NAV returns.
- **Risks:** The normal risks of real estate apply. The weighted average length of unexpired lease to break is 5.2 years. EPRA profits grow significantly further in FY'22E, with the completion of Hudson Quarter, central York. Retail exposure (bar Wickes and Booker) is minimal. Hudson Quarter selling well means earlier reduction in development capital debt exposure. We have upgraded here.

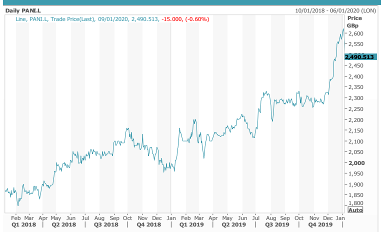
Financial summary and valuation

Year-end Mar (£m)	2017	2018	2019	2020E	2021E
Net income	12.2	14.9	16.4	19.0	16.4
Finance cost	-3.0	-3.4	-4.6	-4.0	-4.0
Declared profit	12.6	13.3	6.4	3.6	20.2
EPRA PBT	6.4	7.5	8.6	11.0	8.2
EPS reported (diluted, p)	36.5	35.8	11.3	25.4	33.3
EPRA EPS (p)	21.2	18.7	16.5	7.1	44.1
DPS (p)	18.5	19.0	19.0	19.0	19.0
Net cash/debt	-68.6	-82.4	-96.5	-108.6	-84.8
Dividend yield	5.7%	5.8%	5.8%	5.8%	5.8%
Price/EPRA NAV	72.7%	77.6%	79.2%	81.2%	76.1%
EPRA NAV (p)	443.0	414.8	406.6	396.8	423.0
LTV	37.3%	29.9%	33.8%	37.2%	30.2%

Source: Hardman & Co Research

HARDMAN&CO.

Closed-Ended Investments Funds



Source: Refinitiv

Market data

EPIC/TKR	**PIN**
Price (p)	2,525
12m High (p)	2,620
12m Low (p)	1,975
Shares (m)	54,089
Mkt Cap (£m)	1,365
NAV p/sh (p)	2,799.2
Discount to NAV	9%
Market	Premium equity closed-ended investment funds

Description

The investment objective of Pantheon International PLC (PIP) is to maximise capital growth by investing in a diversified portfolio of private equity (PE) assets and directly in private companies.

Company information

Chairman	Sir Laurie Magnus
Aud. Cte. Chr.	Ian Barby
Sen. Ind. Dir.	Susannah Nicklin
Inv. Mgr.	Pantheon
Managers	Andrew Lebus/Helen Steers
Contact	Vicki Bradley +44 20 3356 1725 www.piplc.com

Key shareholders (31 May'19)

USS	8.2%
Merian	7.0%
Esperides SA SICAV- SIF	5.7%
East Riding of Yorkshire	4.7%
APG Asset Mgt.	4.4%
Investec Wealth	4.4%
Private Syndicate pty	3.8%
Brewin Dolphin	3.4%

Diary

End-Jan	December update

Analyst

Mark Thomas 020 7194 7622
mt@hardmanandco.com

PANTHEON INTERNATIONAL

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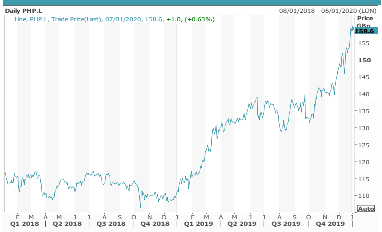
PIP is an investment trust that invests in a diversified portfolio of PE assets managed by third-party managers across the world. PIP is the longest-established PE fund-of-funds on the London Stock Exchange and has outperformed the FTSE All-Share and MSCI World indices since its inception in 1987.

PIP is managed by Pantheon, one of the world's foremost PE specialists. Founded in 1982, with assets under management (AUM) of $43bn (as at 30 June 2019), and a team of over 90 investment professionals globally, Pantheon is a recognised investment leader, with a strong track record of investing in PE funds over various market cycles in both the primary and secondary markets, as well as a track record of co-investments.

PIP actively manages risk by the careful selection and purchase of high-quality PE assets in a diversified and balanced portfolio, across different investment stages and vintages, by investing in carefully-selected funds operating in different regions of the world.

Given the regulatory restrictions on distributing research on this company, the monthly book entry for Pantheon can be accessed through our website, *Hardman and Co Research*. Our initiation report, published on 6 September 2019, and our report, *History of value added to portfolio by holding Pantheon*, published on 26 November 2019, can be found on the same site.

Real Estate



Source: Refinitiv

Market data

EPIC/TKR	PHP
Price (p)	158
12m High (p)	160
12m Low (p)	110
Shares (m)	1,220
Mkt Cap (£m)	1,925
EV (£m)	2,960
Market	Premium, LSE

Description

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

Company information

CEO	Harry Hyman
CFO	Richard Howell
Chairman	Steven Owen

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

Key shareholders

Directors	1.0%
Blackrock	6.7%
CCLA	5.3%
Investec Wealth	5.0%
Vanguard Group	2.7%
Troy Asset	2.3%

Diary

Feb'20	Final results
Apr'20	AGM

Analyst

Mike Foster 020 7194 7633
mf@hardmanandco.com

PRIMARY HEALTH PROPERTIES

48% total shareholder return in 2019

Last year was a particularly encouraging one, yet PHP's record illustrates how it can grow its dividend consistently – up every year since IPO 23 years ago – and indeed its balance sheet (390% in the past decade). What next? We think 2020 will be a year illustrating the ongoing benefits of treasury management in reducing interest and operating costs. Most importantly, though, the top line will also do well. Rents are upwards-only, but the rises have been modest in recent years. We see an accelerating trend in rental evolution as leases are renewed in 2020.

- **Top-line growth:** Open market rent rises have been ca.1% for some years. This is set to rise because of mounting build costs. The progressive, measured, expansion in the asset base in RoI brings higher returns through somewhat higher yields and a lower debt cost.
- **Cost of debt falling:** The cost of debt rose to just above 4.0% post the merger with MedicX Fund – which had higher average debt costs than PHP. The most recent debt facility bears an interest cost of 1.51%. We see scope over the medium term for PHP's average coupon to fall 50bps (0.5%), which would enhance EPS by ca.7%.
- **Balance sheet:** A placing at 128p in September expanded the equity base 6.4%. As the proceeds of this funding from happy (at this share price) new holders is deployed, the earnings-accretive nature of the assets and low cost of debt result in upwards momentum to EPS over and above the rent rises and falling costs.
- **Risks:** No development risk is taken. Investment is focused tightly on this one sector. Assets are rented to top-quality covenant tenants on long leases. Undrawn facilities exceeded £200m pre the £100m equity placing and the €70m debt facility of September 2019. We estimate 46% LTV at the end of 2020.
- **Investment summary:** The merger and ongoing debt refinancing have significantly enhanced EPS while, at the same time, being modestly de-leveraging. There is, therefore, a clear road ahead for EPS growth, which is further supported by the significant trend in rents. These have seen modest growth in recent years, but are now set to move significantly ahead of UK real estate average rent inflation.

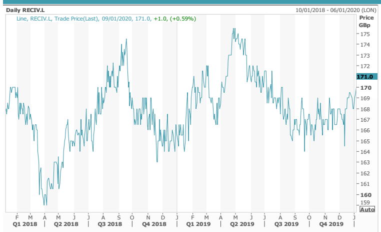
Financial summary and valuation

Year-end Dec (£m)	2016	2017	2018	2019E	2020E
Income	66.5	71.3	76.4	116.5	134.5
Finance costs	-32.5	-31.6	-29.7	-43.7	-47.0
Declared profit	43.6	91.9	74.3	-52.5	114.5
EPRA PBT (operating)	26.7	31.0	36.8	60.2	74.5
EPS reported (p)	7.8	15.3	10.5	-5.1	9.4
EPRA EPS (diluted, p)	4.7	5.1	5.2	5.7	6.1
DPS (p)	5.12	5.25	5.40	5.60	5.85
Net debt	-663.2	-726.6	-670.2	-1,192.9	-1,222.9
Dividend yield	3.2%	3.4%	3.4%	3.5%	3.7%
Price/EPRA NAV (x)	1.73	1.57	1.50	1.45	1.42
NAV per share (p)	83.5	94.7	102.5	103.3	106.0
EPRA NAV per share (p)	91.1	100.7	105.1	108.8	111.6

Source: Hardman & Co Research

HARDMAN&CO.

Diversified Financial Services



Source: Refinitiv

Market data

EPIC/TKR	RECI
Price (p)	168.5
12m High (p)	175.5
12m Low (p)	164.0
Shares (m)	209.4
Mkt Cap (£m)	352
NAV p/sh. (p)	167.1
Premium/Disc	0.8%
Market	Premium Equity Closed-Ended Inv. Funds

Description

Real Estate Credit Investments (RECI) is a closed-ended investment company that aims to deliver a stable quarterly dividend via a levered exposure to real estate credit investments, primarily in the UK, France and Germany.

Company information

Chairman	Bob Cowdell
NED	Susie Farnon
NED	John Hallam
NED	Graham Harrison
Inv. Mgr.	Cheyne Capital
Head of Team	Ravi Stickney
Main contact	Richard Lang
	+44 207 968 7328
	www.recreditinvest.com

Key shareholders

Bank Leumi	8.6%
AXA SA	8.4%
Close Bros	8.2%
Premier AM	8.2%
Fidelity	8.0%
Canaccord Genuity Group	7.7%
Smith and Williamson	6.7%

Diary

Early Feb'20	January Factsheet

Analyst

Mark Thomas	020 7194 7622
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REAL ESTATE CREDIT INVESTMENTS

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RECI is a closed-ended investment company. To achieve the investment objective, the company invests, and will continue to invest, in real estate credit secured by commercial or residential properties in Western Europe, focusing primarily in the UK, France and Germany.

Investments may take different forms, but are likely to be:

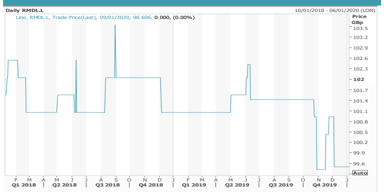
- Secured real estate loans, debentures or any other forms of debt instruments (together "Secured Debt"). Secured real estate loans are typically secured by mortgages over the property or charges over the shares of the property-owning vehicle. Individual secured debt investments will have a weighted average life profile ranging from six months to 15 years. Investments in secured debt will also be directly or indirectly secured by one or more commercial or residential properties, and will not exceed a loan to value ("LTV") of 85% at the time of investment.
- Listed debt securities and securitised tranches of real estate-related debt securities – for example, residential mortgage-backed securities and commercial mortgage-backed securities (together "MBS"). For the avoidance of doubt, this does not include equity residual positions in MBS.
- Other direct or indirect opportunities, including equity participations in real estate, save that no more than 20% of the total assets will be invested in positions with an LTV in excess of 85% or in equity positions that are uncollateralised. On specific transactions, the company may be granted equity positions as part of its loan terms. These positions will come as part of the company's overall return on its investments, and may or may not provide extra profit to the company, depending on market conditions and the performance of the loan. These positions are deemed collateralised equity positions. All other equity positions in which the company may invest are deemed uncollateralised equity positions.

RECI is externally managed by Cheyne Capital Management (UK) LLP, a UK investment manager authorised and regulated by the FCA. As at 31 July 2019, Cheyne had 153 employees, of which 30 were in the Real Estate Team, and AUM of $7.1bn, of which $3.2bn was managed by the Real Estate Team. It has offices in London, New York, Bermuda and Zurich. Cheyne invests across the capital structure – from the senior debt to the equity positions. It has expertise in the structuring, execution and management of securitisation transactions, involving a broad range of assets, including portfolios comprised of traditional asset classes, such as commercial and residential mortgages, as well as mortgage-backed securities and the management of commercial real estate portfolios, focused on Europe and the UK.

Given the regulatory restrictions on distributing research on this company, the monthly book entry for RECI can be accessed through our website, *Hardman and Co Research*. Our initiation report, published on 28 August, and our note Delivering on its promises, published on 17 December can be found on the same site.

RM SECURED DIRECT LENDING

Premium Equity Closed-Ended Investment Funds



Source: Refinitiv

Market data

EPIC/TKR	RMDL/RMDZ
Price (p)	99.5/105.5
12m High (p)	104.0
12m Low (p)	99.5
Shares (m)	122.24
Mkt Cap (£m)	120
NAV p/share (p)	98.96
Free Float	100%
Market	LSE Equity Inv. Instr.

Description

RM Secured Direct Lending (RMDL) aims to generate attractive and regular dividends through investment in debt instruments that are backed by real assets, led by exceptional management teams, and that usually demonstrate high cashflow visibility.

Company information

Chairman	Norman Crighton
NED	Guy Heald
NED	Marlene Wood
Inv. Mgr.	RM Funds
CIO	James Robson
Co. Manager	Pietro Nicholls
AIFM	IFM

(RM) +44 131 6037060
rmdl.co.uk

Key shareholders

CCLA	17%
Quilter	16%
MerianGlobal	13%
Brooks MacDonald & Hawksmoor	5%
CG AM & Jupiter	4%
Sarasin & Charles Taylor & PAM & Seneca & Blankstone Sington	3%
RM (Inv. Mgr.)	1%

Diary

Mid'Jan	December factsheet

Analyst

Mark Thomas 020 7194 7622
mt@hardmanandco.com

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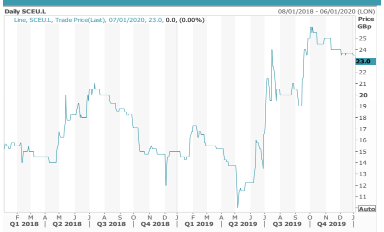
RMDL will seek to meet its investment objective by making investments in a diversified portfolio of loans to UK SMEs and mid-market corporates, and/or to individuals. These loans will generally be, but are not limited to, senior, subordinated, unitranche and mezzanine debt instruments, documented as loans, notes, leases, bonds or convertible bonds. Such loans will typically have a life of two to 10 years. In certain limited cases, loans in which the company invests may have equity instruments attached; ordinarily, any such equity interests would come in the form of warrants or options attached to a loan. Typically, the loans will have coupons that may be fixed, index-linked or LIBOR- linked. For the purposes of this investment policy, UK SMEs include entities incorporated outside of the UK, provided their assets and/or principal operations are within the UK. RMDL is permitted to make investments outside of the UK to mid-market corporates.

The investment manager for RMDL's assets is RM Funds. RM Funds is a specialist in fixed income, being part of RM Capital, a diversified fixed-income firm. Headquartered in Edinburgh, with offices in London, RM Funds has a team of analysts focused on bottom-up, bespoke credit and lending work, with a focus on secured lending over physical assets or contracted cashflows. RM Funds provides both public and private strategies to allow investors to participate in secure debt investments, aiming to provide above-average returns on a risk-adjusted basis.

Given the regulatory restrictions on distributing research on this company, the monthly book entry for RMDL can be accessed through our website, *Hardman and Co Research.* Our *initiation report: Predictable revenue streams generating high yield*, published on 5 June 2019, and our reports, *Defensive qualities in uncertain times* (26 September 2019) and *Social Infrastructure: RMDL an alternative alternative* (6 January 2020), can be found on the same site.

Automotive



Source: Refinitiv

Market data

EPIC/TKR	**SCE**
Price (p)	24
12m High (p)	26
12m Low (p)	12
Shares (m)	136
Mkt Cap (£m)	32.6
EV (£m)	31.0
Free Float*	86%
Market	AIM

**As defined by AIM Rule 26*

Description

Surface Transforms (ST) is 100% focused on the manufacture and sales of carbon ceramic brake discs. It has recently announced a number of OEM contracts.

Company information

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

www.surfacetransforms.com
+ 44 151 356 2141

Key shareholders

Directors	14.0%
Canaccord	14.8%
Unicorn	12.3%
Richard Gledhill esq. (director)	9.9%
Richard Sneller esq.	8.2%
Hargreaves Lansdown	4.5%

Diary

Apr'20	Report for seven months to Dec'19

Analyst

Mike Foster 020 7194 7633
mf@hardmanandco.com

SURFACE TRANSFORMS

Gross profits set to quadruple in 2020

Substantial new contracts have been won, post the May'19 year-end. These have been transformational in the development of the company. It now has multi-year, multi-million, recurring income contracts from European-based global original equipment manufacturers (OEMs). Ahead of these, the acceleration in gross profits is substantial. Note the change of year-end, but our estimate of sales more than trebling in 2020 vs. 2019. By 2021, we expect the group to be cashflow-positive on the basis of the current order book. By 2022, on the same basis, we estimate overall profitability.

- **Major orders won last year:** On 28 June 2019, OEM 6 contract award: two contracts worth ca.£8m over the next five years. On 16 July 2019, OEM 5 contract award: lifetime revenue contracted at ca.€11.8m, commencing October 2021. In the context of the market, these are small contracts; there's more to come.
- **The strategic position**: As ST supplies only ca.2% of the 2020 market and now has the credibility of several leading global OEMs' supply contracts, the volume ramp-up potential is clear. Capital equipment is in place for significant expansion and, in 2020, we see potential for further large orders.
- **Capacity allocation model:** ST's capacity-in-place is £17m sales p.a. Scope for expansion is significant, and – typical for new automotive components – as volumes increase, production efficiencies also rise. Prices can thus fall, with maintained profit margins, thereby expanding market demand exponentially.
- **Evolution of risks:** ST is set to be cashflow-positive by 2021. It is the right side of high barriers to new competition in a high-growth market with only one competitor. The product requires a delicate marriage of manufacturing and chemical engineering skills. ST's high R&D spend has secured this.
- **Investment case:** This is a large, growing market, 99%-supplied by one, highly-profitable player. This single supply was a most anomalous position for an auto OEM market – now ST also supplies. June/July contract wins de-risk the business, and both open and expand the target market. The path to the company's discs being designed into many more models is clear.

Financial summary and valuation

Year-end May*/ Dec**(£m)	FY'19*	*7-month 19E***	FY'20E**	FY'21E**	FY'22E**
Sales	1.00	1.50	3.30	4.10	5.80
EBITDA	-2.63	-1.00	-0.55	-0.10	1.00
EBITA	-2.97	-1.20	-1.25	-0.80	0.30
PBT	-2.98	-1.20	-1.25	-0.80	0.30
PAT	-2.06	-0.90	-0.70	-0.25	0.85
EPS (adjusted, p)	-1.64	-0.66	-0.51	-0.18	0.62
Shareholders' funds	6.96	6.05	5.35	5.10	5.95
Net (debt)/cash	1.60	1.60	1.40	1.90	3.20
P/E (x)	loss	n.a.	loss	loss	39.0
EV/sales (x)	23.8	n.a.	9.6	7.7	5.0
EV/EBITDA (x)	loss	n.a.	loss	loss	28.5
DPS (p)	nil	nil	nil	nil	nil

**May year-end, **the company has announced its change of year-end to December*
Source: Hardman & Co Research

THE 600 GROUP

Difficult near-term trading, but growth on track

The 600 Group remains well-placed fundamentally, despite near-term trading difficulties. The group is competitively well positioned, with a world-class reputation and its financial position strengthened by the pension scheme buyout. The acquisition of Control Micro Systems Inc (CMS) is strategically attractive, providing a platform for further growth. The shares are, however, likely to tread water in the near term, despite standing at a discount to the peer group and to a DCF valuation, and offering an appealing yield, in our view.

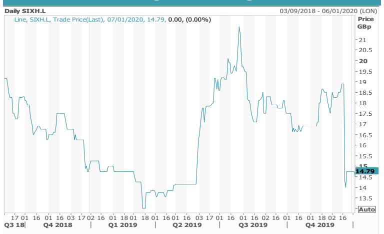
- **Trading update:** Trading in 4Q 2019/20 is much worse than recently expected, reflecting order delays in Germany and the Far East, owing to the continued slowdown in the global automotive industry. Elsewhere, business activity remains healthy, with a particularly strong performance in the UK and the US.
- **Financial forecasts:** Gross margins are holding up well but the high-margin Industrial Laser Systems division has been impacted by the order delays. 2019/20 and 2020/21 earnings forecasts have been reduced by ca.40% and 30%, respectively, with increased net debt level expectations.
- **Strategy:** The strategic objective is to grow the business into a global industrial concern. The recent US acquisition of CMS significantly strengthens the competitive position of the group's TYKMA industrial laser systems subsidiary, being complementary and adding significant engineering expertise.
- **Competitive position:** The 600 Group is regarded as well positioned within highly competitive industries. The group has undertaken a UK restructuring programme to reduce capex requirements and further improve margins. Opportunities are also available for operational and distribution synergy benefits.
- **Investment summary:** The shares offer the opportunity to invest in a de-risked cyclical stock with strong operational leverage, enhanced by new product launches and new market entry. Cyclicality has been de-risked through further development of high-margin repeat/recurring business. The risk/reward profile is favourable, but the shares are likely to tread water until improvements in the weak markets become visible.

Financial summary and valuation

Year-end Mar ($m)	2018	2019	2020E	2021E
Sales	63.9	65.2	71.2	76.9
Gross profit	21.6	23.6	25.6	28.5
Underlying EBIT	1.8	5.2	3.8	4.5
Underlying PTP	0.6	4.0	2.4	3.3
Underlying EPS (c)	1.0	3.5	1.9	2.5
Statutory EPS (c)	1.5	3.5	1.9	2.5
Net (debt)/cash	-15.6	-14.5	-16.7	-14.4
DPS (p)	0.50	1.00	1.00	1.00
P/E (x)	25.1	7.2	9.9	7.7
Yield	2.5%	5.0%	6.8%	6.8%

Source: Hardman & Co Research

Industrial Engineering



Source: Refinitiv

Market data

EPIC/TKR	**SIXH**
Price (p)	14.8
12m High (p)	21.9
12m Low (p)	12.1
Shares (m)	117.1
Mkt Cap (£m)	17.3
EV (£m)	28.5
Free Float*	72.1%
Market	AIM

**As defined by AIM Rule 26*

Description

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

Company information

Executive Chairman	Paul Dupee
CFO	Neil Carrick

+44 1922 707110
www.600group.com

Key shareholders

Haddeo Partners	20.0%
Mr A Perloff and Maland	9.0%
Mr T Miller	3.8%
Miton Group	3.3%
Others	63.9%

Diary

Apr'20	Final results

Analyst

Paul Singer 020 7194 7622
ps@hardmanandco.com

URBAN LOGISTICS

Pipeline opportunities complement track record

SHED's focus on an asset class with notably positive supply-demand characteristics is enhanced by strong asset management – in particular, re-gearing leases with consequent value-uplifts – and a history of shrewd acquisitions. Management's shrewd acquisition record is demonstrated by SHED's 58% average total property return uplift achieved on disposals since flotation. The pipeline update, provided on 6 January, indicates £146m assets in advanced stages of negotiation, with a similar amount for the medium term. The former comprises three portfolios, plus 12 assets, on a 6.8% net initial yield on average 7.8-year leases.

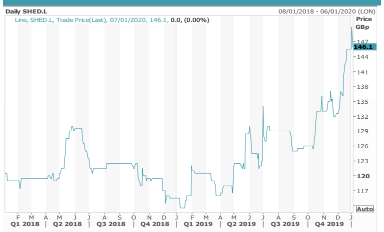
- **Acquisition pipeline:** SHED has a stated growth strategy and, in light of the potential to build on its strong track record, is "considering an equity fundraising." It "will commence a period of engagement with existing and potential new investors." We set out the strong track record and recent acquisitions below.
- **Acquisitions:** On 20 September, contracts were exchanged on two DHL-tenanted logistics warehouses on a net initial yield of 5.9% and six depots on 7.0%, on which a 20-year lease was arranged. With this recent acquisition track record, we are confident of strong asset purchases in the pipeline announced on 6 January.
- **Strong asset class fundamentals:** The positive attributes of this asset class are underpinned by the most unusual combination of a physical reduction in supply of "mid-box" logistics assets (those around 50,000 sq. ft. in size) and the rising demand, which ongoing growth in e-fulfilment only enhances further.
- **Risks:** Its 6.1-year leases indicate reversionary rent rises to come, but also that new leases must be secured. In the past ca.20 years, aggregate rent rises have been minimal. Physical reduction in supply, new demand from omni-channel supply-chain and assets trading at below replacement cost all mitigate downside.
- **Investment track record:** SHED listed on AIM in April 2016. Management has achieved 16.1% compound accounting (NAV plus dividend) returns p.a. to September 2019. The total (ungeared) property returns, which average 58%, equate to 25% p.a. Market rents have risen to ca.25% above SHED's current level – so the reversionary potential is clear and significant.

Financial summary and valuation

Year-end Mar (£m)	2017	2018	2019	2020E
Rental income	2.28	5.56	10.80	12.20
Finance costs	-0.60	-0.93	-2.20	-2.60
EPRA operating profit	1.73	3.40	8.18	9.90
Declared profit	4.89	9.86	18.88	18.40
EPS reported (p)	46.80	19.54	22.12	20.97
EPRA EPS (diluted, pre-LTIP, p)	7.82	4.91	7.01	8.32
DPS (p)	6.23	6.32	7.00	7.80
Net debt	16.52	44.39	61.64	66.12
Dividend yield	4.3%	4.4%	4.8%	5.4%
Price/EPRA NAV (x)	1.25	1.18	1.05	0.98
NAV per share (p)	118.26	123.62	137.39	148.47
EPRA NAV per share (p)	116.11	122.49	137.96	148.47

Note: We plan to initiate FY'21E and FY'22E shortly *Source: Hardman & Co Research*

Real Estate



Source: Refinitiv

Market data

EPIC/TKR	SHED
Price (p)	145
12m High (p)	150
12m Low (p)	113
Shares (m)	87.8
Mkt Cap (£m)	127
EV (£m)	189
Market	AIM

Description

Urban Logistics (SHED) focuses on strategically-located (e.g. urban "last mile"), smaller (typically ca.70,000 sq. ft.) single-let industrial and logistics properties, servicing high-quality tenants. The market is in strategic under-supply.

Company information

CEO	Richard Moffitt
Chairman	Nigel Rich

+44 20 7591 1600
www.urbanlogisticsreit.com/

Key shareholders

Directors	1.2%
Allianz	11.6%
Janus Henderson	10.7%
Rathbone	10.5%
Sir John Beckwith	8.0%
Premier	7.9%
GLG	4.4%

Diary

May'20	Final results
Jul'20	AGM

Analyst

Mike Foster 020 7194 7633
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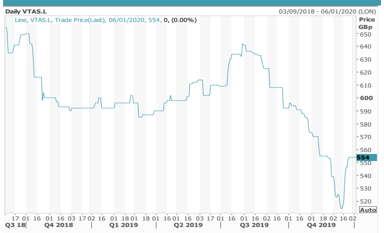
Financials



Source: Refinitiv

Market data

EPIC/TKR	VTA .NA, VTA.LN VTAS LN
Price (€)	6.60/6.53/554p
12m High (€)	6.74/7.04/642p
12m Low (€)	6.04/6.14/515p
Shares (m)	36.6
Mkt Cap (€m)	241
Trail. 12-mth. yield	9.4%
Free Float	70%
Market	AEX, LSE

Description

Volta Finance (Volta) is a closed-ended, limited liability investment company with a diversified investment strategy across structured finance assets (primarily CLOs). It aims to provide a stable stream of income through quarterly dividends.

Company information

Independent Chairman	Paul Meader
Independent Non-Executive Directors	Graham Harrison Stephen Le Page Atosa Moini Paul Varotsis
Fund Managers AXA IM Paris	Serge Demay A Martin-Min François Touati
Co. sec. /Administrator	BNP Paribas Securities Services SCA, Guernsey Branch

BNP: +44 1481 750853
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Key shareholders

Axa Group	30.4%

Analyst

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VOLTA FINANCE

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Volta is a closed-ended, limited liability company registered in Guernsey. Its investment objectives are to seek to preserve capital across the credit cycle and to provide a stable stream of income to its shareholders through dividends that it expects to distribute on a quarterly basis. The rolling 12-month dividend is €0.62 per share (with €0.15/€0.16 per share paid quarterly). The assets in which Volta may invest, either directly or indirectly, include, but are not limited to, corporate credits, sovereign and quasi-sovereign debt, residential mortgage loans, commercial mortgage loans, automobile loans, student loans, credit card receivables, leases, and debt and equity interests in infrastructure projects. The current underlying portfolio risk is virtually all to corporate credits. The investment manager for Volta's assets is AXA Investment Managers Paris, which has a team of experts concentrating on the structured finance markets.

On 11 December 2018, Volta announced that, after due enquiry, it was the opinion of the Board that the company's shares qualified as an "excluded security" under the rules; the company is therefore excluded from the FCA's restrictions that apply to non-mainstream pooled investments (NMPIs).

Given the regulatory restrictions on distributing research on this company, the monthly book entry for Volta Finance can be accessed through our website, *Volta Finance Ltd Research*. Our initiation report, published on 5 September 2018, can be found on the same site, as can our notes on the manager's March and June presentations, our 7 October 2019 report, *9%+ yield in uncertain times*, as well as links to our Directors Talk interviews on the company.

Notes

Notes

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(Disclaimer Version 8 – Effective from August 2018)

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In particular, Article 12(3) of the Directive states: 'The following benefits shall qualify as acceptable minor non-monetary benefits only if they are: (b) 'written material from a third party that is commissioned and paid for by a corporate issuer or potential issuer to promote a new issuance by the company, or where the third party firm is contractually engaged and paid by the issuer to produce such material on an ongoing basis, provided that the relationship is clearly disclosed in the material and that the material is made available at the same time to any investment firms wishing to receive it or to the general public…'

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

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