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# SHARES

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'TO RISE' 7% A YEAR

WHICH FUND  
MANAGERS EXCEL  
AT COMMUNICATION?

**BUMPER EDITION: SMALLER COMPANY 'SPOTLIGHT' REPORT INSIDE**

# A lesson on opportunistic takeover bids

Elis moves on Berendsen... it seems such an obvious target in hindsight

A successful business which encounters a bump in the road can quickly become a takeover target if its share price drops far enough. We saw it last year with industrial suppliers Premier Farnell and Brammer; and now we've got textiles specialist **Berendsen (BRSN)**.

Many investors will be kicking themselves that they didn't buy the FTSE 250 business when its share price took a massive hit last year. French rival Elis is now trying to buy the company, having offered the equivalent of £11.73 in cash and shares for each share in Berendsen.

I am not surprised that Berendsen has attracted takeover interest. Nearly one third of its market value had been wiped off since a nasty profit warning last October with new management blaming underinvestment. That presented a rare opportunity to buy a business with a superb track record of generating shareholder value at a much lower price.

## HISTORY OF REWARDING SHAREHOLDERS

Until last October, Berendsen had seen a three-fold increase in its share price over a five year period. Peter Ventress oversaw the creation of significant returns for the business (and ultimately shareholders) when he was chief executive from late 2009 until 2015. Under his tenure, return on capital employed increased from 7.3% to 12.2%, according to data from SharePad.

Predators normally pounce on share price weakness if they have a long term view and confidence they can fix any short term problems. Elis has a good geographic fit and the combined group would have a much stronger position across Europe. It seems to be the perfect buyer and the proposed bid price is fair, according to various analysts.

If Berendsen was such an obvious takeover



target, you may ask why I didn't tell readers to buy the shares since they became much cheaper late last year. I did consider it several times, but I wanted to obtain a better understanding of the problems and why a few analysts had started to turn negative.

Ultimately it is very hard to buy a share that is surrounded by negativity. Investors are often told the best time to buy is when others are fearful, but it takes a lot of guts to press the 'buy' button.

**PREDATORS NORMALLY POUNCE ON SHARE PRICE WEAKNESS IF THEY HAVE A LONG TERM VIEW AND CONFIDENCE THEY CAN FIX ANY SHORT TERM PROBLEMS.**

## WHAT WENT WRONG?

Stockbroker Stifel issued a negative research note in December 2016, implying new boss James Drummond was tinkering with a business that wasn't really broken. It suggested Berendsen was 'reaching too far' in trying to achieve new growth objectives and becoming distracted from day-to-day delivery of operational improvements.

In April 2017, Morgan Stanley said increased UK and European competition was probably the real reason why Berendsen had been struggling, rather than underinvestment. It suggested the company's 15% return on capital employed target would be difficult to achieve.

Berendsen says Elis' proposed bid materially undervalues the business. At the time of writing the shares trade at £10.71 –below the £12 to £13 level enjoyed by investors last year. I believe Elis will keep fighting to get the company... and win.

For the rest of us, let Berendsen and the other opportunistic bids be a lesson to cast an eagle eye on any sudden valuation weakness in a business with a strong historic track record.

# THE SCOTTISH Investment Trust



## We're investing in ugly ducklings...

At the Scottish, we take a contrarian approach to global stock markets.

We are high-conviction investors and focus on stocks that are out of favour with mainstream investors, as we believe these offer the greatest potential for long-term gains. This is because popular stocks tend to be overvalued – while out-of-favour stocks are often too cheap. We aim to exploit this inefficiency for our shareholders.

The investment environment is inherently cyclical. We see cycles in industry fundamentals, corporate behaviour, analyst views and investor sentiment. These cycles are closely linked: when an industry's fundamentals have been strong for some time, management teams, analysts and investors tend to be overly optimistic about its future. This leads to irrational investment decisions. Some of our best opportunities arise at the opposite point in the cycle – when a downturn leads to excessive pessimism about a company's prospects. When this happens, we can buy stocks precisely when the profit opportunity is greatest.

### An innovative investment approach

We believe investment returns are driven by a change in a company's prospects and an accompanying change in market perceptions. Often good companies are overly admired and consequently become overvalued. A company that has been badly run or is down on its luck may offer much more potential for improvement and, eventually, for outstanding returns. As contrarian investors, we see three distinct investment categories.

We categorise the first as **ugly ducklings** – unloved companies that most investors shun. These firms face fundamental challenges, and the market has become extremely pessimistic about their prospects. But we see their out-of-favour status as an opportunity.

The second category is where **change is afoot**. These companies have made significant changes to their prospects, but the improvements are not yet recognised by the market. So, while other managers continue to steer clear, we see the potential for profit.

In the third category are companies that have **more to come**. Unlike the first two categories, these companies are generally recognised as good businesses but we see an opportunity as the market does not appreciate the scope for further improvement.

### A painstaking process

To identify the right opportunities, we use a qualitative and quantitative analytic framework to research companies' fundamental prospects. We carefully assess any management change and restructuring actions, and consider the likely extent of any earnings recovery.

Companies in our portfolio can move along an axis from "ugly ducklings" to "change is afoot" and then "more to come". When ugly ducklings become fully fledged swans, we're looking to sell. Until then, we keep portfolio turnover to a minimum.

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## WHO WE ARE

### EDITOR:

Daniel  
Coatsworth  
@SharesMagDan

### DEPUTY EDITOR:

Tom Sieber  
@SharesMagTom

### NEWS EDITOR:

Steven Frazer  
@SharesMagSteve

### FUNDS AND INVESTMENT TRUSTS EDITOR:

James Crux  
@SharesMagJames

### REPORTER:

David Stevenson  
@SharesMagDavid

### JUNIOR REPORTER:

Lisa-Marie Janes  
@SharesMagLisaMJ

### CONTRIBUTORS

Emily Perryman  
Tom Selby

### PRODUCTION

Head of Production  
Michael Duncan

Designer  
Rebecca Bodi

### ADVERTISING

Sales Executive  
Nick Frankland  
020 7378 4592

nick.frankland@sharesmagazine.co.uk

### MANAGING DIRECTOR

Mike Boydell

## BROKER RATINGS EXPLAINED:

We use traffic light symbols in the magazine to illustrate broker views on stocks.

Green means buy, Orange means hold, Red means sell.

The numbers refer to how many different brokers have that rating.

Eg: **4** **2** **1** means four brokers have buy ratings, two brokers have hold ratings and one broker has a sell rating.

The traffic light system gives an illustration of market views but isn't always a fully comprehensive list of ratings as some banks/stockbrokers don't publicly release this information.

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# Where to reinvest your National Grid cash

Utility giant is about to divide up £3.2bn among its shareholders

**T**here will be a lot of happy faces across the UK on the morning of Friday 2 June as a hefty amount of money is added to ISAs and SIPPs (self-invested personal pensions). That's the day when the UK's largest listed utility company, **National Grid (NG.)**, gives its shareholders a combined £3.2bn present.

The FTSE 100 constituent will return a significant chunk of cash to shareholders as a special dividend after selling a 61% stake in its gas distribution networks.

You needed to have been on the shareholder register on 19 May to qualify for the special dividend which is 84.375p per share.

If you owned 10,000 shares in the company on 19 May, for example, you will receive £8,437.50 as a special dividend.

This money is on top of the 29.1p per share ordinary dividend for the second half of its financial year which will be paid on 16 August.

Investors could just pocket the cash and perhaps put it towards a holiday or new car. But if you would rather put that money to work, there are several options with UK stocks.

First, you could buy more National Grid shares. This is a reasonable choice in our opinion, particularly as its business model hasn't changed after selling a majority stake in its gas distribution networks.

Some investors may prefer to diversify into alternative stocks with similar income bearing attractions.

Energy suppliers **SSE (SSE)** and **Centrica (CNA)**, which owns British Gas, both offer prospective income yields of around 6%.

The downside with these stocks is a threatened energy price cap by the Conservative party. A Tory victory at the forthcoming general election could create uncertainty over future returns for the utility sector which could weigh on SSE and Centrica's shares prices.

Water group **Pennon (PNN)** might be a different



stock to consider. It has stable regulated earnings balanced with faster growth from its waste disposal business Viridor. Pennon's shares currently offer a 4% prospective dividend yield.

Investors could follow the lead of UK equity income funds and buy big oil. **BP (BP.)** and **Royal Dutch Shell (RDSB)** are, on average, the two most commonly held shares by the 25-odd UK equity income funds.

Other popular picks among income fund managers include cigarette manufacturer **British American Tobacco (BATS)**, pharmaceutical giant **AstraZeneca (AZN)**, and mobile network **Vodafone (VOD)**.

These stocks offer prospective dividends yields of between 3.2% (British American Tobacco) to 6.7% for Royal Dutch Shell.

You calculate a prospective yield as follows: forecast dividend per share for the current financial year divided by the latest share price, multiplied by 100.

It is worth stressing that none of the aforementioned companies guarantee they will pay dividends every year nor pay the exact amount forecast by analysts. (SF)

# Revolution Bars has a major credibility problem

Profit warning contains two feeble excuses and one major cause for concern



**W**e believe there are elevated risks to the **Revolution Bars (RBG)** investment case following a profit warning. Do not buy the shares at 122.01p as a recovery trade until there is evidence problems facing the cocktails-to-food specialist can be fixed.

We fear that the company could have another profit warning in the near term given difficult market conditions.

Shares in Revolution Bars fell by 40% on 19 May when it said costs were higher than expected, two sites had to be closed for refurbishment and new sites (mostly the Revolución de Cuba brand) were taking longer than anticipated to hit full profitability.

The severe share price decline suggests the market has lost confidence in the business, and for good reason.

Higher wage costs shouldn't have been a surprise to management. They will have known about these extra costs when reporting full year results on 28 February, so that is a feeble excuse.

The decision to temporarily close a site in Blackpool in March should also have been known at the time of the full year results.

Canaccord Genuity analyst Nigel Parson attributes 70% of the profit warning to poor budgeting rather than operational issues. 'If this proves to be right, then we view the profit warning as an irritating blip that can be sorted quickly.'

While we think the analyst makes a valid point,

the slow take-up of the new Revolución de Cuba sites is a major concern.

Five of this year's six new site openings are the Revolución de Cuba format, plus half of next year's planned openings.

'Under our new forecasts, Revolution would need to fund capital expenditure ahead of organic cash flow instead of generating a surplus,' says Parson, who has slashed his earnings per share forecast by 28% this year to 10.2p and by 34% to 11.4p for 2018.

'In the short term, it can cope as the balance sheet is in good shape with £5m cash on the balance sheet and net debt of c£0.1m and a £10m facility to draw upon. But, if there is a deeper issue we believe it will need to slow the opening programme, or cut the dividend or both. Not so good.'

The casual dining market is in oversupply and rising inflation is putting pressure on consumer spending. Several restaurant businesses have issued profit warnings this year, saying trading conditions are tough.

In contrast, pubs operator **Marston's (MARS)** on 18 May reported decent trading. Its chief executive Ralph Findlay told *Shares* that pubs tend to outperform restaurants and casual dining sites when customers are feeling under pressure.

He said Marston's had recently seen strong demand for cocktails, so perhaps Revolution Bars is losing custom to pubs? (DC)

# FTSE 100 dividends 'to rise' 7% a year

Bank predicts significant pick up in blue chip payouts over next three years

Investors can expect a sharp rise in dividends paid out by FTSE 100 constituents for the coming three years according to Societe Generale.

The investment bank's median estimates point to a decent 7% dividend growth rate per year into 2019.

Dividend estimates for UK blue-chips have been upgraded since the vote for Brexit last June, following multiple years of downgrades. Yet the average growth rates 'computed' by SG show a 'fairly steep pick-up in dividends, after an anaemic 2016'.

SG says this is 'primarily due to a number of companies slashing their dividends last year, and where our analysts expect a resumption of payment, but also a resumption of payment for some companies after years without dividends, with sharp sequential annual rises.'

**Royal Bank of Scotland (RBS)** hasn't paid a dividend since the financial crisis. However a reorganisation of its share capital should give the lender greater scope to resume dividend payments soon.

Supermarket titan **Tesco (TSCO)** plans a return



to the dividend list in the 2017/18 financial year following a two-year absence.

Other companies expected by SG to generate strong dividend growth include **Primark** owner **Associated British Foods (ABF)**, cigarette giants **British American Tobacco (BATS)** and **Imperial Brands (IMB)** and consumer products supplier **Reckitt Benckiser (RB.)**.

SG sees minimal dividend growth from the likes of budget airline **EasyJet (EZJ)** and automotive engineer **GKN (GKN)**, while anticipating flat dividends from indebted high street bellwether **Marks & Spencer (MKS)** and **GlaxoSmithKline (GSK)** among others. (JC)

## Gemfields in low-ball takeover approach

THE MAJORITY SHAREHOLDER of **Gemfields (GEM:AIM)** wants to acquire the emeralds-to-rubies miner on the cheap. Pallinghurst has tabled a nil-premium bid equal to 38.5p per share. It has already exceeded the 75% minimum support level for the offer, meaning it can technically push to delist the business from AIM. The suitor says it might relist the broader Pallinghurst group on London's Main Market. (DC)

## Cranswick sizzles as analysts raise profit forecasts

SOLID FULL YEAR results (23 May) from sausages, pork and poultry supplier **Cranswick (CWK)** prompt Investec to upgrade its pre-tax profit forecast by 5.5% for both 2018 (now £82.3m) and 2019 (now £84.1m). The decent performance was down to organic gains and contributions from recent acquisitions. Investors should also be pleased with a 19.7% increase in the final dividend to 31p. (DC)

## New growth plans for Entertainment One

MEDIA GROUP **ENTERTAINMENT One (ETO)** is to reduce the quantity and increase the quality of its film productions, leaning more heavily on partnerships such as Steven Spielberg's Amblin production firm. Other initiatives spelled out at results on 23 May include accelerating growth in its music division and launching two new brands in its 'Family' division alongside existing blockbuster properties *Peppa Pig* and *PJ Masks*. (DC)



# Berenberg's top mid-cap stock picks

Investment bank flags says there are still value ideas despite strong market rally

**G**ambling marketer **XLMedia (XLM:AIM)** and car dealer **Pendragon (PDG)** are among Berenberg's top picks for UK mid-cap value stocks. The investment bank thinks these stocks, plus a few others, still offer decent upside to investors despite the broader stock market having already rallied this year.

It believes investors could make approximately 20% profit through buying shares in XLMedia. Its 150p, 12-month price target compares to a 126p trading price at the time of writing.

It says the company is exposed to online real-money gaming and social gaming markets 'where prospects look good'. It says XLMedia continues to diversify revenue streams into non-gaming areas

and believes its strong net cash position should enable it to increase shareholder distributions or make strategic acquisitions.

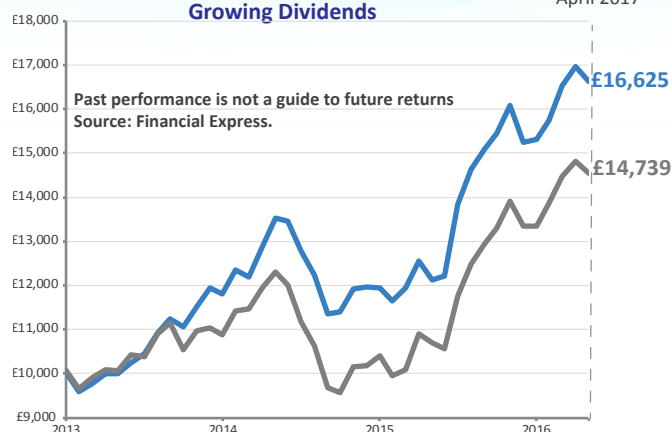
Berenberg likes building products supplier **Tyman (TYMN)** as a play on further recovery in the North American housing market. It reckons shareholders could make nearly 15% gain on the stock when buying at 340.5p.

Elsewhere, it tips housebuilder **MJ Gleeson (GLE)**, saying it is differentiated from peers by having 'the lowest average selling price in the sector but the highest gross margins'. Berenberg has a 740p price target for Gleeson, believing its Strategic Land division 'could be sold to uncover value'. The shares currently trade at 629.5p. (JC)

## GUINNESS ASSET MANAGEMENT

### Guinness Asian Equity Income Fund Equal weighted | Concentrated | Quality Growing Dividends

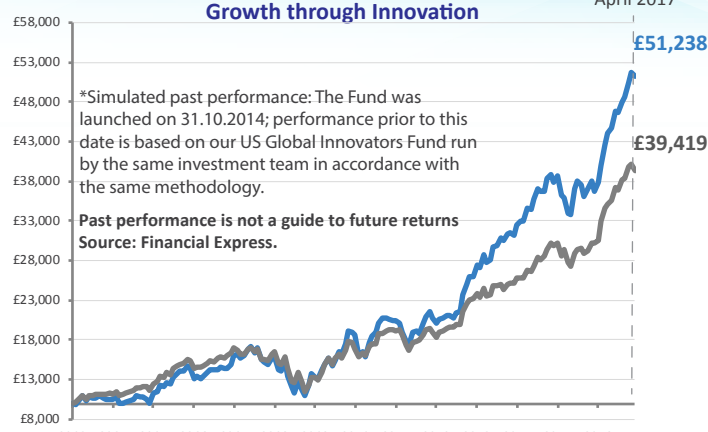
April 2017



Discrete years % gross total return (GBP)	Apr '13	Apr '14	Apr '15	Apr '16	Apr '17
Guinness Asian Equity Income			35.2	-10.2	37.0
MSCI AC Pacific ex Japan Index	18.4	-6.8	22.5	-12.8	36.4

### Guinness Global Innovators Fund Equal weighted | Concentrated | Quality Growth through Innovation

April 2017



Discrete years % gross total return (GBP)	Apr '13	Apr '14	Apr '15	Apr '16	Apr '17
Guinness Global Innovators strategy*	25.1	20.7	21.3	-3.1	39.4
MSCI World Index	22.5	8.1	18.7	1.1	30.6

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## 14.8%

### ROYAL MAIL'S OPERATING PROFIT WAS 14.8% AHEAD OF EXPECTATIONS

INVESTORS IN ROYAL Mail (RMG) should be pleased with its full year results on 18 May because they were much better than expected by analysts. In particular, investment bank Investec says Royal Mail's operating profit of £353.2m was 14.8% higher than its forecast.

Volumes in both Royal Mail's UK parcel business and European parcel arm GLS were ahead of forecasts. Royal Mail even delivered slightly more letters than analysts had put into their financial models.

## 10 MINUTE DDOS RAID

THE VAST MAJORITY of 'distributed denial of service' (DDoS) cyber-attacks are over before most organisations even realise they are happening, experts say.

Most last less than 10 minutes, says Andrew Lloyd, the sales and marketing chief of DDoS defence specialist **Corero Network Security**

(CNS:AIM).

That means most attacks have finished before most cyber defence systems even recognise they are happening.

DDoS attacks are typically used by cyber criminals as smokescreens for other types of malicious hacking attacks by shutting down websites and IT systems.



## 45.1%

### ACCEPTANCE FOR SHAWBROOK TAKEOVER BELOW REQUIRED LEVEL

THERE SEEMS A good chance that Marlin Bidco's attempt to take banking group **Shawbrook**

(SHAW) private will fail unless the offer price is raised. The suitor has only got support (including its existing stake) for 45.1% of the issued share capital, below the 50% (plus one share) required threshold for the takeover to succeed.

Marlin Bidco is the acquisition

vehicle for Pollen Street and BC Partners. The offer is open until 26 May. A further extension, if necessary, is likely to be announced on 30 May.

It is offering 330p per share in cash. Shawbrook's shares are presently trading at 339.44p, so the market is clearly expecting Marlin to table a higher bid in order to win over investors.



## -12% JOHNSTON RELYING TOO MUCH ON THE 'i'

JUST CONSIDER THE trouble newspaper business **Johnston Press (JPR)** would be in, if it hadn't completed the £24m acquisition of the 'i' newspaper last April.

Its latest trading update (19 May), covering the first four months of 2017, shows total revenue up 0.2%. Without the 'i', Johnston would have suffered a 12% revenue decline on a group basis.

If the readership of the 'i' publication were to tail off, the market focus on its struggling local newspaper operation could intensify.



# 2.9m

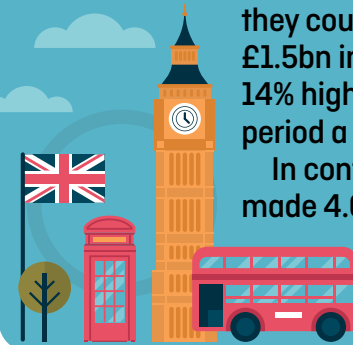
## PEOPLE VISITED UK FROM OVERSEAS IN MARCH

THE UK ATTRACTED 2.9m overseas visitors in March 2017, an impressive 11% jump from the same month in 2016. That's according to data from Office for National Statistics.

This should benefit hoteliers, retailers and airport operators.

Overseas visitors are also spending more as they coughed up a combined £1.5bn in the month, which is 14% higher than the consecutive period a year earlier.

In contrast, UK residents made 4.6m visits abroad in March 2017, representing 5% year-on-year growth.



## FTSE 100: BEST PERFORMING STOCKS SO FAR THIS YEAR

Company	Share price gain
Persimmon	36.4%
International Consolidated Airlines	35.3%
Fresnillo	31.4%
Barratt Developments	31.3%
ConvaTec	29.5%
Taylor Wimpey	28.7%
Rolls-Royce	28.3%
Unilever	26.2%
Coca-Cola HBC	24.7%
EasyJet	24.4%

Source: SharePad. Data to 22 May 2017



## FTSE 250: BEST PERFORMING STOCKS SO FAR THIS YEAR

Company	Share price gain
Sophos	53.3%
Softcat	51.7%
WS Atkins	43.3%
KAZ Minerals	41.9%
Vesuvius	41.3%
FirstGroup	41.2%
JP Sports Fashion	39.8%
Renishaw	39.7%
NEX	39.2%
Grafton	38.0%

Source: SharePad. Data to 22 May 2017





# Quartix has scope to beat modest expectations

Telematic supplier's growth opportunity is getting bigger

**B**lack box tracking technology supplier **Quartix (QTX:AIM)** has scope to beat conservative expectations this year as it gears up for a rapid growth phase.

With a large UK business and a smaller operation in France, the company has now broken the seal on expansion in the potentially huge US market that is many times the size of the UK.

## WHAT DOES IT DO?

Quartix designs and supplies the clever, connected black boxes that sit in vehicles and allow all sorts of data to be linked to a control centre for analysis via the company's cloud-based analytics platform.

Its main opportunity is connecting fleets of vehicles, such as supermarket trucks transporting goods to stores or parcel vans making deliveries.

It also supplies insurance companies although this has become less of a focus because the work is unpredictable in nature while putting pressure on operating margins. In contrast,

## QUARTIX BUY

(QTX:AIM) 385p

Stop loss: 308p

Market value: **£181.6m**

fleet customers tend to use the company's services for years at a time.

Analysts estimate average customer lifetime value, with nine vehicles as an example, of between seven and 10 times the initial customer acquisition cost (about £1,000).

In real terms, a relationship could run for even longer given the difficulty and expense of switching telematics providers across a large vehicle fleet.

In this example customers pay about £1,500 a year on which Quartix's running cost is about £100 to cover mobile network arrangements.

## STICKY CUSTOMERS

Fleet customer attrition is next to nothing. Some operators might need to downsize the number of vehicles through

the economic cycle, but such decisions are likely to be better flagged and easier to manage.

Fleet subscription additions rose 19% to 87,000 overall in 2016, showing UK operations up 14% to 71,000 vehicles, France 26% ahead to 10,000, while US subscriptions jumped 95% to 6,000. That demonstrates the scope for rapid growth in the US where Quartix is building from a low base.

The change in target market strategy means analysts expect little or no growth this year before picking up again in 2018, although we believe management have been deliberately over-cautious.

Earnings growth in the mid-teens is anticipated next year. Quartix is also robustly cash generative, throwing off about £7m a year.

We believe this to be a high quality business sensibly throwing its resources behind its best opportunities, a strategy that could see the shares go beyond past highs of 465p. (SF)



## BROKER SAYS:





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# The smaller housebuilder with really big potential

Interesting model and discounted valuation are reasons to back Countryside

The majority of housebuilders on the London Stock Exchange are large companies, some even big enough to be in the FTSE 100 index.

Many investors tend to focus on the top players, yet in doing so we believe they are missing out on interesting opportunities further down the market cap spectrum.

One example is FTSE 250 constituent **Countryside Properties (CSP)** which trades at a material discount to the sector despite brighter growth prospects and a business model which should limit downside if the housing market goes into reverse.

At 301.2p the shares trade on 8.8 times investment bank Berenberg's 2018 earnings per share forecast of 34.1p, some way behind the sector average of 9.7 times.

## DYNAMIC MARKET

We think the dynamics behind the housebuilding market remain positive for now.

Although there are some signs of house prices softening, demand for houses is still running ahead of supply, mortgage availability remains high and political support remains strong.

## COUNTRYSIDE PROPERTIES BUY

(CSP) 301.2p  
Stop loss: 210p

Market value: **£1.36bn**

Countryside's half year results on 17 May saw completions jump by a third to 1,437. As a result, its adjusted operating profit was up from £50.8m a year ago to £70.4m.

Reported revenue was up almost a quarter (23%) at £351.1m and reported operating profit rose by 53% to £53.2m.

**53%**  
year-on-year  
increase in first  
half operating  
profit

The company splits its operations into two key divisions. One is the so-called 'normal' housebuilding, which includes its eponymous Countryside franchise and high end Millgate brand. The other is its partnerships division which was a big driver of its impressive first half performance.

## BETTER TOGETHER

The latter operation, which sets it apart from the majority of its peers, services landowners that want to develop land and build residential houses and whom need partners to achieve it.

A typical customer will be a local authority with land which is run down and potentially contaminated, and which has a mandated housing supply need to meet.

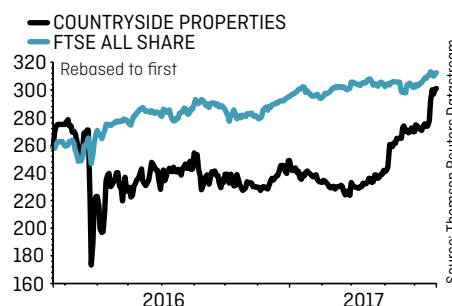
This activity is very profitable for Countryside as it can often gain advantageous terms on the purchase of this land.

It should also hold up well if the UK economy takes a turn for the worse, as Berenberg notes: 'Since local authorities were restricted from new housebuilding in the early 1980s they have continued to supply new housing at a low level.'

Peel Hunt forecasts Countryside will increase its housebuilding volumes by 70% in the three financial years to September 2019 to 4,595 units.

The broker has a 395p price target for the shares, implying 31% upside over the next 12 months. Countryside also has a 3.4% prospective dividend yield. (TS)

## BROKER SAYS:





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## IDEAGEN (IDEA:AIM)

93.5p TAKE PROFIT

**Gain to date: 45.5%**

**Previous Shares view:**

**Buy at 64.25p, 22 December 2016**

## YU GROUP (YU.:AIM)

437.5p TAKE PROFIT

**Gain to date: 52.2%**

**Previous Shares view:**

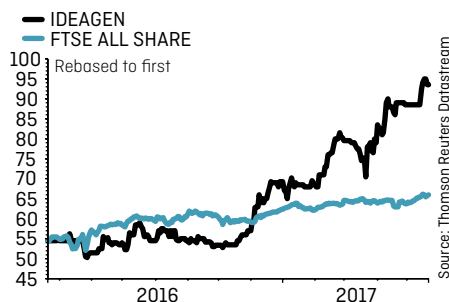
**Buy at 287.5p, 13 April 2017**

SOMETIMES THE SPEED of a share price re-rating catches everybody out, including us.

Many investors love to 'run their winners', but sometimes we feel it is prudent to lock in decent gains if they've been achieved faster and higher than we originally expected.

With that in mind, we're going to end our trades on **Ideagen (IDEA:AIM)** and business energy supplier **Yu Group (YU.:AIM)**.

Fundamentally both Ideagen and Yu remain decent companies. We simply feel their share prices have gone high enough for now.



We said to buy Ideagen at 93.5p in December 2016, as one of our top picks for the year ahead. Its share price has subsequently risen by approximately 45%.

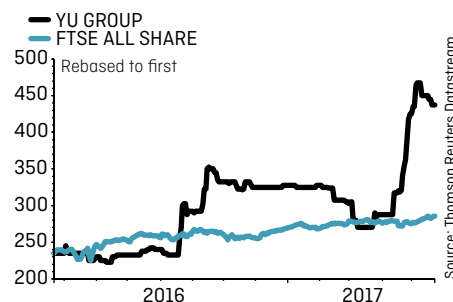
Ideagen supplies safety, risk and compliance software to what it calls 'high consequence' industries such as airlines, mining and healthcare.

Its shares now trade on approximately 22 times earnings which looks a full enough rating, in our view.

As for Yu, its share price has also shot up by approximately 50% – but this

feat has been achieved in a mere six weeks since we said to buy at 287.5p.

We remain positive on its plans to shake-up the business energy supply market but the short-term upside appears limited from here. (SF)





**BURFORD CAPITAL**

(BUR:AIM) 859.96p

**Gain to date:** 17.2%**Previous Shares view:****Original entry price:** Buy at 734p

LITIGATION FINANCE PROVIDER **Burford Capital (BUR:AIM)** is cashed up having completed its third successful retail bond offer to raise £175m. The offer saw strong demand and was heavily oversubscribed.

This injection of capital should help the company accelerate growth by investing in more cases.

Market leader Burford has two arms which both conduct the same activity, namely funding law suits in return for a share of a compensation award.

Numis estimates Burford has delivered an average internal rate of return (IRR) of more than 27% and, factoring in the new funds which the company can deploy, the house broker ups its

earnings per share forecast for 2019

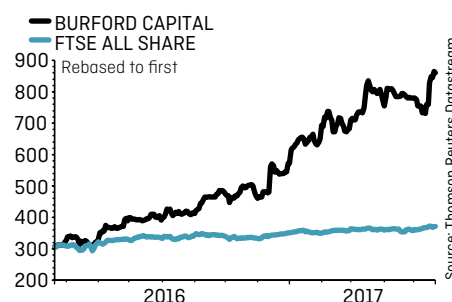
by 11% and hikes its price target from 880p to 950p.

Analyst

Jonathan Goslin

says: 'Litigation finance represents an attractive asset class with the potential for uncorrelated high returns from investments with automatic exits.

'In our view, investing in Burford represents one of the most profitable and easiest means of accessing this rapidly growing industry.'

**SHARES SAYS:** ↗

**Keep buying this excellent business.**

**BROKER SAYS:**

4 0 0

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## FRIDAY 26 MAY

## FINALS

VOLVERE VLE

## INTERIMS

IXICO IXI

## TRADING STATEMENTS

INTERTEK ITRK

RESTAURANT GROUP RTN

SPECTRIS SXS

## AGMS

CIRCASSIA PHARMACEUTICALS CIR

RESTAURANT GROUP RTN

SPECTRIS SXS

## MONDAY 29 MAY – UK STOCK MARKET CLOSED

## TUESDAY 30 MAY

## FINALS

HORIZON DISCOVERY HZD

KAINOS KNOS

RENOLD RNO

## INTERIMS

AFI DEVELOPMENT AFRB

## AGMS

VALIRX VAL



## IG GROUP (IGG)

Shares in IG Group have slowly started to recover following a massive share price sell-off last December. It was caught up in a regulatory clampdown on the way spread betting companies market their services to retail customers.

A trading update in March showed a rise in active client numbers but a drop in average revenue per client.

We'll get a more up-to-date picture of trading on 31 May when IG gives a snapshot for its full year performance, ahead of the full numbers which should be published in mid to late July.



## KAINOS (KNOS)

Digital technology solutions supplier Kainos has had to think laterally as NHS investment has slowed. That's not been great for its Evolve healthcare platform but sensibly the company has alternative growth levers to pull, particularly its *WorkSmart* suite of enterprise tools.

April's trading update flagged the benefits of being more broad-based, keeping new business on track with lowered expectations. That implies flat pre-tax profit for the year to 31 March 2017 on the previous year's £14.1m.

We'll know the precise figure on 30 May when Kainos publishes its full year results.

## WEDNESDAY 31 MAY

## FINALS

LONDONMETRIC PROPERTY LMP

TELFORD HOMES TEF

## TRADING STATEMENTS

IG GROUP IGG

## AGMS

ATLAS MARA CO-INVEST ATMA

CLUFF NATURAL RESOURCES CLNR

E-THERAPEUTICS ETX

F&amp;C COMMERCIAL PROPERTY TRUST FCPT

LCG-LONGBOW LBOW

TEKCAPITAL TEK

## THURSDAY 1 JUNE

## EX-DIVIDEND

ALBION TECHNOLOGY &amp; GENERAL VCT AATG 1P

ABERDEEN NEW THAI INVESTMENT TRUST ANV 10.3P

BRITISH EMPIRE SEC &amp; GEN TRUST BREM 4.06P

BLACKROCK WORLD MINING TRUST BRWM 3P



## RESTAURANT GROUP (RTN)

The market doesn't appear to be holding out for strong trading from Frankie & Benny's operator Restaurant Group when it updates the market on 26 May. Its share price has been weak in the run up to this event, perhaps as a result of other restaurateurs saying life is tough.

Full-year results on 8 March saw new chief executive Andy McCue talk about a 'transitional' year in 2017, citing increased costs owing to the National Living Wage; the apprenticeship levy; and business rates as issues to watch while he works on a new game plan for the business.

DEBENHAMS	DEB	1.025P
DFS FURNITURE	DFS	9.5P
DFS FURNITURE	DFS	3.7P
DILLISTONE	DSG	2.8P
FLOWTECH FLUIDPOWER	FLO	3.67P
GAMMA COMMUNICATIONS	GAMA	5P
HEADLAM	HEAD	15.85P
HILTON FOOD	HFG	12.5P
ICG ENTERPRISE TRUST	ICGT	10P
INLAND HOMES	INL	0.5P
KEYWORDS STUDIOS	KWS	0.89P
MICHELMERSH BRICK	MBH	2P
MOSS BROS	MOSB	3.98P
MURRAY INCOME TRUST	MUT	7P
PACIFIC ASSETS TRUST	PAC	2.6P
REA	RE.	4.5P
SHAWBROOK	SHAW	2.7P
SPIRE HEALTHCARE	SPI	2.5P
STAFFLINE	STAF	15.3P
STM	STM	1P
TAYLOR WIMPEY	TW.	9.2P

[Click here for complete diary](#)

# Healthcare Transformation Creates New Opportunities



**DAN MAHONY PhD**  
**FUND MANAGER**

**W**e all expect to live longer and healthier lives and this, combined with an ageing population, is stimulating the demand for increased healthcare provision. The challenge for society is how to deliver this to more people for less money.

There is major structural change occurring in the healthcare sector. Information and access to technology is one of the key drivers and we expect a revolution in the way health is managed, delivered and paid for. As a result, the competitive structure of the healthcare industry is already changing but many investors seem unaware of this.

There will be winners and losers, management teams that recognise and adapt should take market share and deliver stable earnings growth and compounding returns for investors.

Every member of our team has devoted their entire career to healthcare, as specialists, we live and breathe the scientific complexity, regulatory oversight and political risk associated with investing in this sector.

In 2010, we launched the Polar Capital Global Healthcare Growth and Income Trust with a focus on pharmaceutical stocks that at the time were unloved, under-owned and undervalued. Our goal was to double our investors' money in 7 years – we have done better than that.

We now propose a new investment strategy that will enable investors to exploit the growth opportunities in healthcare. The sector is attractively valued and the outlook is strong for companies adapting to and driving change – this is an exciting time for healthcare.

[www.polarcapitalhealthcaretrust.com](http://www.polarcapitalhealthcaretrust.com)

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# UK shares may not be as cheap as you might think

We examine the discount of UK stocks to European and US counterparts

**H**ave investors got it wrong on the outlook for UK domestic-focused shares over the coming months? One expert believes so, as we now explain.

The attention on the looming UK general election on 8 June has taken some of the spotlight off the Brexit process which officially started in March. Yet Brexit will return to the forefront of politicians' and investors' minds when the election winner is announced on 9 June.

Further volatility in sterling seems likely given the acrimonious start to negotiations between the UK and the remaining members of the European Union. There may also be the first signs of what impact, if any, Brexit-related uncertainty is having on the UK economy.

This is very important to investors. Why? Some people argue that expectations for weak UK data have already been fully priced in to the value of domestically-focused UK shares. If true, any bad news on the economic front may only trigger a mute reaction to the domestically-focused FTSE 250 index.

However, other people believe that investors may have underestimated the impact of negative UK data (if it happens) in the future, so UK shares would still be susceptible to economic setbacks.



Last week investment bank Liberum commented: 'One of the bull arguments for domestics in recent meetings has been that "the UK is on a 12 times price to earnings and the rest

of the world is on 18 times" – a discount of around 33% – implying that the bad news coming in the second half of the year is (overly) priced in.'

Liberum suspects this quote has been backed by 'cherry picked data', prompting it to run various tests on the market versus US and European equities.

It concludes that the UK domestic market is only trading on a 5% to 10% discount – thus implying that potential bad news has certainly not be fully priced in.


Liberum believes domestic cyclical – firms which are sensitive to movements in the wider UK economy – as being 'relatively overvalued' heading into the second half of the year when it expects a raft of below-consensus economic data. (TS)

## KEEP AN EYE ON GDP

**UK GDP GROWTH in the first quarter of 2017 was 0.3%, its slowest level since the beginning of 2016. The first GDP estimate for the second quarter should be out on 27 July; and the third quarter estimate is scheduled for 25 October.**

**The consensus GDP forecast for 2017 as a whole of 1.7%, compiled by the Treasury in April, implies growth will have to pick up in the remainder of the year to hit this estimate.**





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Moneyfacts award as at May 2017.

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**J.P.Morgan**  
Asset Management

# It is getting hard to find investment trust bargains

If you do find any, be sure to check if they are cheap for a negative reason

**A**mere 10% of the main investment trust sectors are trading below their average discount or premium to net asset value (NAV) over the past year. That implies it is becoming harder to find bargains, albeit not impossible.

We've calculated the 10% statistic by looking at data from financial services group Winterflood.

On a sector basis, the ones still trading below their 12-month average discount or premium to NAV are UK equity and bond income (smaller companies), UK mid cap, US smaller companies and Asia Pacific income.

## WHY THIS IS IMPORTANT NEWS

This reduced opportunity pool is important as investors have historically flocked to investment trusts as a way of buying assets below their true value.

You can easily spot bargains by comparing their share price to their net asset value (NAV); the latter figure will be regularly reported via stock market announcements.

Some investment trusts consistently trade at a discount to NAV for specific reasons like the market questioning the true value of their underlying assets. Occasionally you'll get some trusts trading at a premium if their assets or strategy is in hot demand.



## HOW DISCOUNTS/PREMIUMS ARE CALCULATED

NAV	100p	100p	100p	100p
Share price	100p	90p	80p	110p
Discount/premium	Nil	10% discount	20% discount	10% premium
Shown as		-10%	-20%	10%

## DISCOUNTS KEEP NARROWING

In March, Stifel found average discounts in the investment trust sector were running close to their narrowest level for 15 years – and it is clear from the latest data that this trend remains intact.

Stifel found average discounts had narrowed to 5.1%. In the run up to the EU referendum vote in June last year, the average investment trust sector

discount stood at 11%, providing a significant value opportunity for investors. The subsequent recovery in equities has closed that gap.

The average discount on the 'global' investment trust sector is now 7%, according to Winterflood data, versus a 7.3% average over the past 12 months to 19 May 2017.

On a weighted basis, which attributes greater influence to the largest trusts, the current global

## 25 'CHEAP' INVESTMENT TRUSTS

	Epic	Share price (p)	% discount to net asset value Now	% discount to net asset value 12-month average
Ashmore Global Opps - £	AGOL	3.9	-27.1	-23.5
Ashmore Global Opps - US\$	AGOU	3.4	-35.3	-29.5
AXA Property Trust	APT	57.9	-25.9	-16.8
Biotech Growth Trust	BIOG	688.0	-8.3	-6.2
BlackRock Income & Growth	BRIG	201.5	-1.6	-0.2
BlackRock N. American Income	BRNA	150.0	-8.0	-3.7
Damille II	DIL2	90.0	-27.1	-13.6
Drum Income Plus	DRIP	97.0	0.5	8.5
DW Catalyst Fund	DWCG	1150.0	-12.6	-10.4
EP Global Opportunities	EPG	289.0	-6.0	-3.1
Fidelity Japanese Values	FJV	108.3	-18.8	-15.9
Fundsmith Emerging Equities	FEET	1107.0	0.1	1.6
Genesis Emerging Markets	GSS	634.5	-13.5	-12.5
Henderson Diversified Income	HDIV	91.8	2.3	3.8
Invesco Income Growth	IVI	298.0	-10.4	-9.0
JPM American	JAM	366.1	-4.9	-3.5
JPM Russian Securities	JRS	462.0	-16.5	-14.7
Lindsell Train IT	LTI	78499.5	31.0	50.0
NB Distressed Debt Ext - US\$	NBDX	0.9	-8.9	-6.6
Ranger Direct Lending	RDL	847.3	-27.9	-9.7
Securities Trust of Scotland	STS	164.3	-6.1	-4.6
Strategic Equity Capital	SEC	216.0	-14.9	-9.5
Third Point Offshore - US\$	TPOU	14.7	-19.9	-17.4
Troy Income & Growth	TIGT	80.0	0.5	1.3
Woodford Patient Capital	WPCT	91.3	-8.2	-2.3

Source: Winterflood, as of 19 May 2017

segment discount is 4.3% versus a 12-month average of 6.5%.

Investment trust heavyweights **Alliance Trust (ATST)**, **Foreign & Colonial (FRCL)** and **Monks (MNKS)** are all currently trading at narrower discounts to their 12-month average.

### SPOTTING CHEAPER THAN NORMAL TRUSTS

With the tightening of discounts in mind, we've subsequently

analysed data from Winterflood which reveals investment trusts trading at a **greater** discount to NAV than their average level over the past year. This is one way of spotting value opportunities, as long as you are confident the widening of the discount will only be a short term issue.

Anyone looking to take advantage of wide discounts should always research the investment trust to see if is

cheap for a negative reason.

For example, debt fund **Ranger Direct Lending (RDL)** is trading on a 27.9% discount to NAV compared with a 12-month average of 9.7%.

Ranger has been dragged down by having a large investment in the Princeton Alternative Income fund. The latter has been hit by having provided credit to two companies which have subsequently got into serious financial trouble.

### SECTORS AND MANAGERS IN THE SPOTLIGHT

Low valuations in the biotech sphere are capping progress at **Biotech Growth Trust (BIOGs)**, and the biotech sector has underperformed the wider market.

Stifel pointed out in mid-May that the Nasdaq Biotechnology Index has lagged the wider market, rising by 16% versus the 20%-odd gains of the S&P 500. It is still positive on the prospects for Biotech Growth Trust.

Changing the investment manager can also become a big problem, as **Strategic Equity Capital (SEC)** is finding out post the shock departure of Stuart Widdowson from GVQ Investment Management, which runs the investment trust.

As the public face of SEC since May 2014, Widdowson's tenure saw a rough 45% rise in NAV during his three years in charge.

The jury is still out on whether his replacement, Jeff Harris, can achieve similar results. That's illustrated by the investment trust trading at a 13.9% discount to NAV versus a 9.5% average over the past year. (SF)





# CAPITALISING ON THE SMALL CAP OPPORTUNITY

**WHY BUYING SMALLER COMPANIES  
AT THE 'RIGHT PRICE' IS CRUCIAL**

PROFESSORS ELROY DIMSON and Paul Marsh, the academics behind the FTSE 100 and Numis Smaller Companies Index (NSCI)<sup>1</sup>, make a compelling case for investing in smaller companies over the long-term.

In their 2017 NSCI Annual Review, Dimson and Marsh

looked at the performance of a number of equity asset classes since 1955: If you'd bought the FTSE All-Share you would've gained a handsome 968%; the MSCI mid-cap index would've handed back 2,870%; and the NSCI? 6,067%. Needless to say, the stark outperformance of



**Neil Hermon**

small-caps over large-caps is undeniable.

The NSCI is the most widely used benchmark for UK smaller companies and roughly comprises the companies that lie in the bottom 10% of the UK market by market capitalisation.

If we look at discrete ten-year periods, i.e. 1955 to 1964, and so on, the evidence continues to be compelling: in the six periods to 2015, smaller companies outperformed in five of them. The exception was 1985 to 1994, coinciding with an explosion of easily available credit that enabled larger companies to boost their growth, somewhat synthetically.

## **WHY DO SMALLER COMPANIES OUTPERFORM OVER THE LONG TERM?**

There are a number of theories. Aside the more obvious factors of strong earnings growth and greater corporate emphasis on innovation, which engenders the ability to capitalise on market opportunities more effectively, there is also the 'neglected effect'.

The complex operations of





larger companies are usually covered by a suite of analysts. It means the market - as a pricing mechanism that represents all of a company's publicly available information - tends to be well served, reflecting the corporate's fundamental worth with relative accuracy.

Smaller companies usually have far fewer analysts covering their operations, meaning there are greater opportunities for a fund manager to spot anomalies - mismatches between a company's prospects or performance and its share price. Our ability to then choose the strongest companies draws from the team's extensive experience in picking stocks, at over 74 years collectively.

But simply allocating to smaller companies or even picking great stocks is insufficient - our belief is that you need to buy them at an attractive entry price to generate strong returns over the long term. It was Benjamin Graham, a man often referred to

as the 'Father of value investing', who said: 'Buy not on optimism but on arithmetic.'

We are growth investors but we apply value principals so as not overpay for the above-average growth of earnings we are seeking to find. This investment style is known as growth-at-the-right-price, or GARP.

As we have written on before, structural or 'secular' growth stories also remain an important part of our portfolios. In a world where economic growth is low and fragile we have been looking

to firms that are exposed to isolated growth trends - where the drivers of their returns isn't correlated, or at least very lowly correlated, to the wider macro-economic cycle. Brexit uncertainties and others abound, this has proved a sensible strategy in recent years.

To highlight some of our structural growth names:

### **BURFORD CAPITAL (BUR:AIM)**

Litigation can be a long and expensive game. For law firms, with many cases likely running at any one time, cash can get tied up and be prevented for use in the growth of new business. The accounting treatment in the recognition of this cash-flow is not favourable either, and traditional finance doesn't like litigation assets so bank lending is often hard to obtain. Burford specialise in bridging this gap. Structural returns come from their low correlation to the market or business cycle. They are also very picky in selecting assets - usually around 10% of cases offered - and yet they have managed to generate very strong rates of return on their investments.



## SANNE (SNN)

Sanne is an outsourced provider of back-office functions to the asset management industry. It has been a challenging environment for active managers more recently: the much-reported downward pressure on fees on account of the growth in passive investment products; increasing costs in areas of regulation such as MiFID II and the Retail Distribution Review (RDR); industry consolidation; and the growth of alternative investments, has all led bosses to strategically redirect firms towards trimmed-down operations. These favourable market conditions for Sanne are propelling its organic growth to excesses of 15%.

## ACCESSO (ACSO:AIM)

Accesso is a disruptor in queue management for theme parks, primarily operating in the US and UK. Their proposition lies



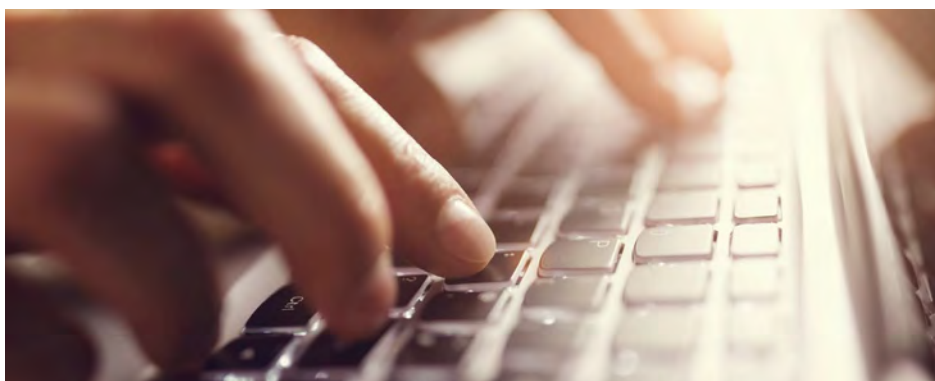
in making the experience more fun for the 'thrill seeker', while generating greater revenues in the process – hand held systems notify you when to queue for your desired rides and it's tech encourages spending.

Interestingly they allow their customers to access the technology themselves so that they can build their own solutions, with cloud based delivery of products enabling real-time updates. Disruption stems from the fact they cut just 2% from the ticket price whereas larger competitors can

charge in the 20% plus bracket. Its structural growth comes from increasing penetration in online ticket purchasing and new customers.

## CALLING ALL INVESTORS: SMALL CAPS FOR STRUCTURAL GROWTH

Amid rising import costs for many companies from weak sterling and the pressure this is creating for domestic names, our investment thesis remains to try and identify firms that generate revenues somewhat protected from macro-economic pressure and poised to structurally continue growing into the future. We also believe that by identifying names in the smaller market-cap area of the market the exposure to this positive trends is only concentrated, which should enable us to continue delivering strong performance in a range of market conditions.



Before investing in an investment trust referred to in this document, you should satisfy yourself as to its suitability and the risks involved, you may wish to consult a financial adviser.

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[1] The NSCI is the most widely used benchmark for UK smaller companies and roughly comprises the companies that lie in the bottom 10% of the UK market by market capitalisation.

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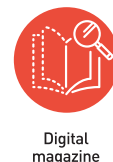
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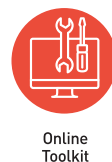
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# HEALTHY & WEALTHY

PHARMA'S TOP LEAGUE

DRUG  
COMPANIES  
MAKE A COMEBACK  
AFTER ROCKY PERIOD



**W**e believe large pharmaceutical stocks are starting to look interesting again. Evolving drug pipelines, the approval of new treatments and greater confidence in future earnings growth all suggest investors should take another look at the sector.

We're coming out of a tough few years for drug companies, rocked by political intervention with price cap threats and many firms losing patent protection on blockbuster drugs.

Although there continues to be the ongoing risk of drug development failure, we feel sentiment is starting to improve towards the really big companies.

The market fundamentals are still very positive. An increasingly ageing population around the world will need more care, plus growing middle class in emerging markets will drive additional demand for healthcare products.

No single company tackles every disease, so you may wish to create a portfolio of pharma stocks to provide diversification.

In this article we explore seven large cap pharma stocks and explain their areas of specialism.

We also talk to various investment managers about why they've invested in one or more of these stocks for their fund(s).

## HOW TO INVEST

Three of these companies are listed in London. The remainder trade on different stock markets such as the New York Stock Exchange. Most UK stockbrokers or investment platform providers will facilitate trading in these stocks.

We appreciate not everyone wants to directly invest in overseas-listed shares, so we've added information on funds available in the UK which invest in the seven large cap pharma stocks.

As a final introductory note, it is worth clarifying that there are many other large cap pharma stocks beyond the ones in our discussion. We don't have the space to discuss everyone; instead, use this article as a platform to do your own further research if you find the sector interesting.



## ASTRAZENECA (AZN) £51.44

ASTRAZENECA PRODUCES medicines to treat cancer, the nervous system, heart or blood vessels, as well as diseases affecting the stomach area.

A breakthrough for AstraZeneca's lung cancer drug *Imfinzi* recently hit the national news headlines. The drug significantly reduced the risk of the disease intensifying or leading to death.

Berenberg analyst Alistair Campbell estimates US potential sales for Imfinzi of over \$2bn, providing a blockbuster opportunity.

**IN 2014,  
22% OF ALL  
CANCER DEATHS  
IN THE UK WERE  
CAUSED BY  
LUNG CANCER**

Source: Cancer Research UK

## MAKING A COMEBACK

### M&G UK Income Distribution (GB0031107021)

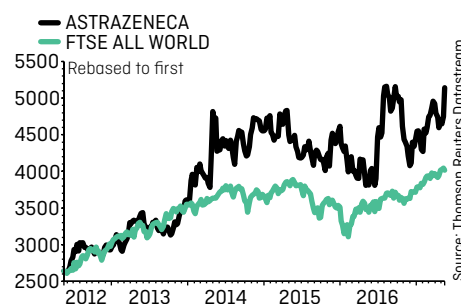
fund manager Hughes is impressed by AstraZeneca's renewed focus as five years ago it suffered from poor management.

Then-CEO David Brennan focused on smaller acquisitions and licensing

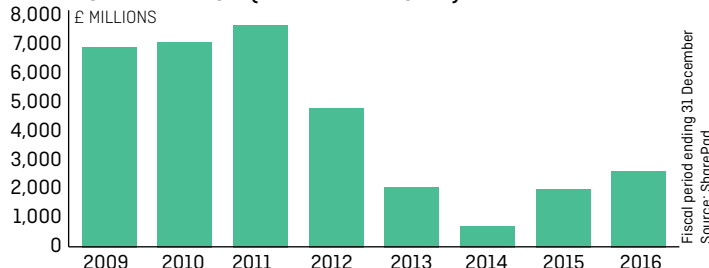
deals. He was also criticised for paying too much for MedImmune in 2007 (\$15.6bn) and failing to replenishing AstraZeneca's drug pipeline.

Under pressure from shareholders, Brennan quit in April 2012 and was replaced by former Roche chief operating officer Pascal Soriot.

Hughes says Soriot has worked hard to 'reverse the previous CEO's mistakes' by focusing on developments in cardiology, cancer and neuroscience.



### ASTRAZENECA (PRE-TAX PROFIT)



## GLAXOSMITHKLINE (GSK) £16.44

YOU MAY KNOW of GlaxoSmithKline through its range of everyday products, whether you use *Aquafresh* toothpaste or *Nicorette* gum to kick that pesky smoking addiction.

The company also researches, develops and manufactures medicines to tackle cold sores or headaches, as well as vaccines to fight diseases such as meningitis.

Over the last three years, £9.8bn was pumped into research and development (R&D) and it generated £15.4bn in sales over the same period from existing products.

**Liontrust Special Situations (GB00B57H4F11)** fund manager Anthony Cross has been a long-term fan of GlaxoSmithKline. He likes the way it earns back the cost of R&D, plus excess money on top, throughout the life of a drug which has patent protection.

'Key examples in recent years include anti-ulcer medication Zantac and respiratory treatment Advair,' he says.

The fund manager believes the market underestimates the cash flows accruing from R&D and subsequent product creation, even when the drugs in question lose their patent protection – something which is also known as 'going off-patent'.

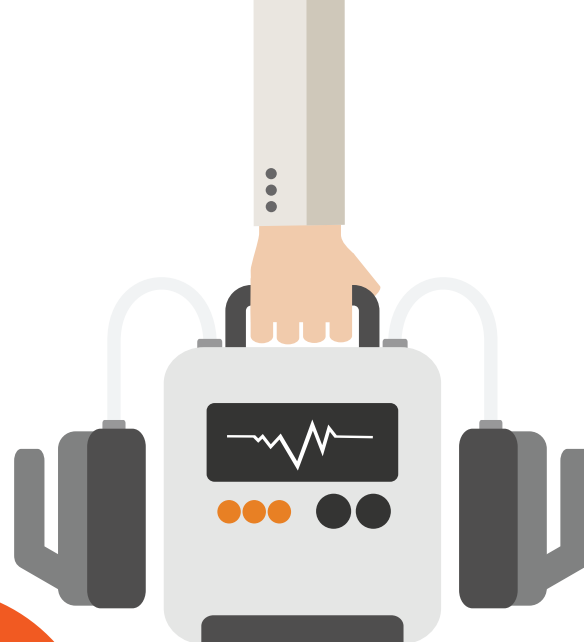
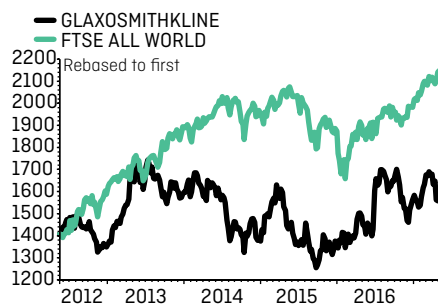
Pharma companies use patents to stop competitors from producing cheaper versions of their drugs for a specific amount of time.

After a patent expires, sales can drop sharply as a firm's rivals release generic versions of its products for a lower price, which hits profit margins as the company has been forced to cut prices.

As for GlaxoSmithKline, Cross is confident in the pharma giant's ability to generate plenty of cash from its broader portfolio of products.

Admittedly, risks are on the horizon for

**GLAXOSMITH-KLINE HAS SPENT £9.8BN OVER THE LAST THREE YEARS ON R&D**



GlaxoSmithKline's HIV division as it faces competition from US-listed Gilead. This is very important as this division has been one of the big growth drivers for the business in recent years. Positive study data was released in

February on Gilead's *Bictegravir* to treat HIV and the company believes its drug could offer a new treatment option with a high barrier to resistance.

### GENEROUS DIVIDENDS... ARE THEY SUSTAINABLE?

Many investors own

GlaxoSmithKline for its generous dividends – it typically yields in the region of 5%.

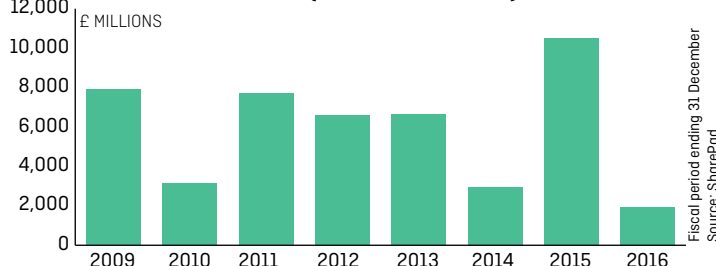
M&G UK Income Distribution fund manager Richard Hughes claims the pharma firm is committed to its dividend and boasts a growing consumer division, which includes anti-fungal treatments.

He says Emma Walmsley's recent appointment as GlaxoSmithKline's chief executive officer is a welcome change and believes she is the right person to guide the company forward.

Walmsley has a wealth of experience as she led the consumer healthcare division, a joint venture between GlaxoSmithKline and Novartis, since 2010. She previously worked for French cosmetics firm L'Oreal for 17 years.

Not everyone shares Hughes' optimism. Fund manager Neil Woodford recently sold his stake in GlaxoSmithKline due to concerns about the company's drug pipeline, weak balance sheet and dividend sustainability.

### GLAXOSMITHKLINE (PRE-TAX PROFIT)





## SHIRE (SHP) £48.19

SHIRE WORKS IN the rare diseases space, which targets a small number of patients – specifically less than five in 10,000 of the general population, according to the EU.

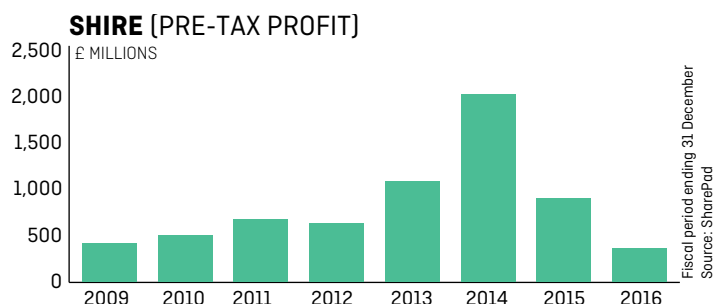
The stock features in several fund portfolios including **Castlefield UK Opportunities (GB00B1XQN911)**. Fund manager Mark Elliott believes the market is undervaluing the company. 'We feel that earnings will likely be much more resilient than many seem to anticipate.'

Shire's share price was weak in the run up to the US election last year as investors worried about its high exposure to the country (it generates about 60% of revenue from the US). Presidential candidate Hillary Clinton had been particularly vocal about her desire to clamp down on high drug prices.

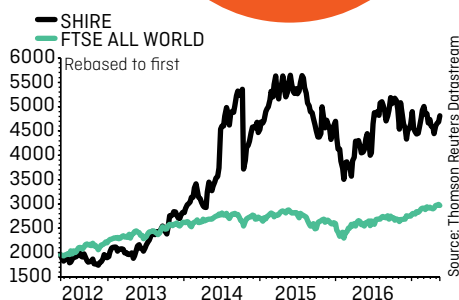
Donald Trump's surprise election victory triggered a recovery in Shire's share price – although it has been fairly volatile for much of 2017.

It received a boost in mid-May after saying its SHP643 drug for hereditary angioedema (HAE) had been successful in a late-stage study.

Bank of America Merrill Lynch analyst Graham Parry says the data confirms Shire's best-in-class properties and potential to represent \$2bn in sales for its HAE franchise in 2023.



**SHIRE'S SHP643 HAS POTENTIAL SALES OF \$2BN IN 2023**



## ROCHE CHF267.2

ROCHE AIMS TO tackle cancer, inflammation, diabetes and viral diseases such as chickenpox and flu through its

**ACCORDING TO CANCER RESEARCH UK, THERE WERE 31 DEATHS EVERY DAY IN 2014 FROM BREAST CANCER**

pharmaceutical and diagnostic offerings.

Its diagnostic products include blood-based self-monitoring systems, while the division can identify specific types of diseases.

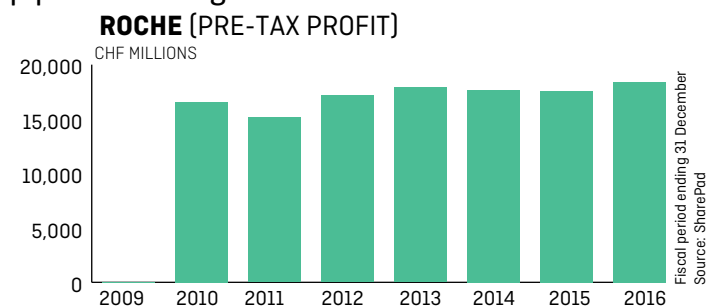
**Saracen Global Income and Growth (GB00B8MG4091)** fund manager Graham Campbell likes Roche because of its good history of

releasing new cancer drugs and a strong pipeline.

Roche is undervalued according to Campbell as investors are overlooking

the sheer number of drugs and diseases it tackles, as well as its potential to generate billions in revenue.

**Baillie Gifford Global Income Growth (GB0005772479)** also has a holding in Roche as co-manager James Dow believes it has the best scientific team to tackle cancer. He is also confident in its ability to deliver growth and a new pipeline of drugs.



## JOHNSON & JOHNSON

\$126.58

YOU'LL PROBABLY know Johnson & Johnson for its baby wipes and *Neutrogena* face wipes. But the company is also a big player in the pharmaceutical world, aiming to treat cancer and infectious diseases.

Baillie Gifford managers Dominic Neary and James Dow are enthusiastic about its outlook. Dow is confident that management are 'genuinely committed to innovation' rather than cost-cutting measures and mergers. He says: 'Johnson & Johnson has a fantastic record of earnings and dividend growth – not all can do that.'

**JOHNSON & JOHNSON PAID OUT \$8.6BN IN DIVIDENDS IN 2016**

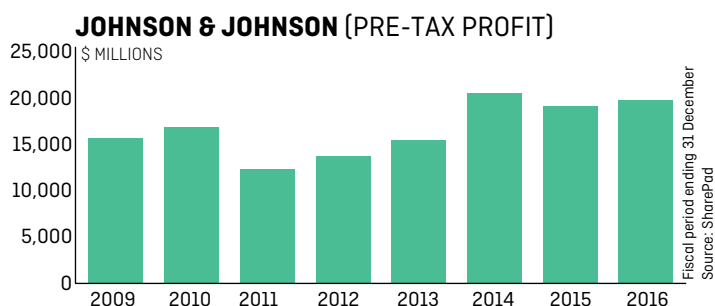
In 2009, the company paid \$1.93 per share (\$5.3bn in total) in dividends. The dividend had increased to \$3.15 per share (\$8.6bn) in 2016.

He thinks that Johnson & Johnson is suitable for investors looking for income and growth potential with a 'moral compass'. Johnson & Johnson is driven by its credo of doing the right thing to support nurses, doctors and patients, instead of chasing profit.

By 2019, the company aims to have filed 10 new products for regulatory approval, all of which have

the potential to exceed \$1bn in sales according to investment experts.

Johnson & Johnson has already gained regulatory approval for three new drugs. These include active rheumatoid arthritis medicine *Sirukumab* and plaque psoriasis treatment *Guselkumab*.



## SANOFI €88.32

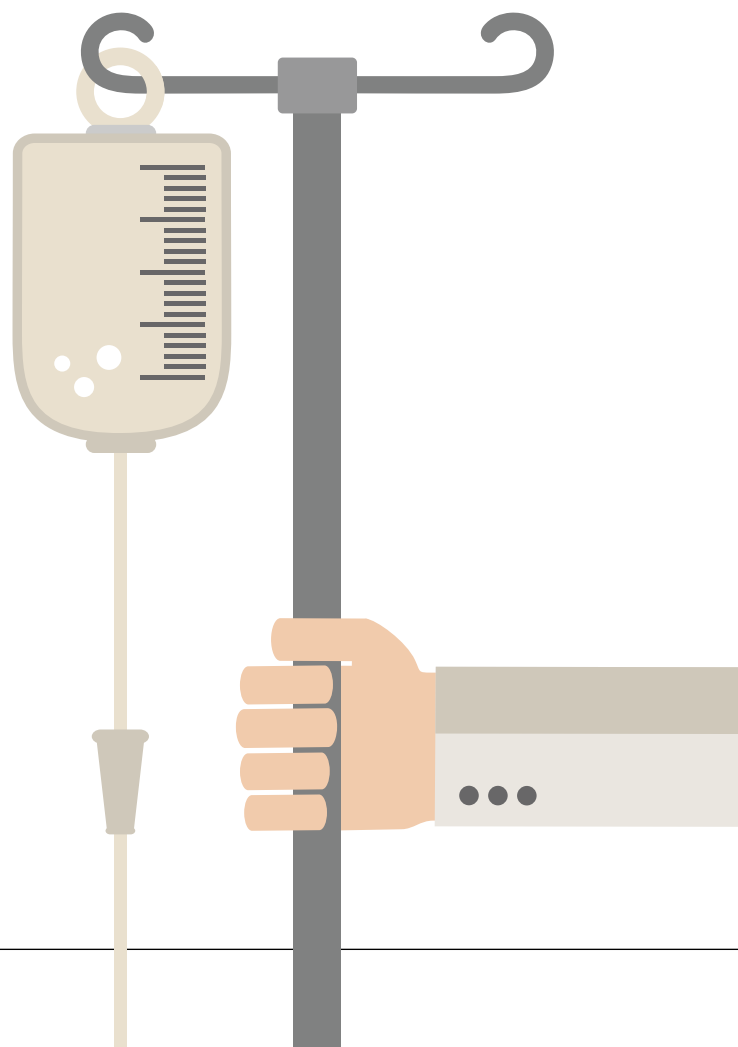
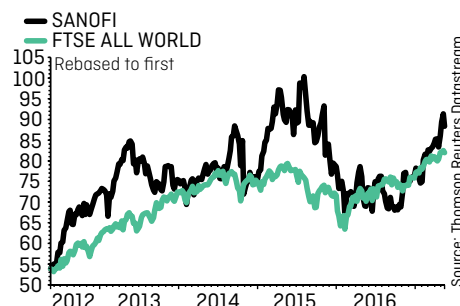
SANOFI IS A global life sciences company that develops drugs to treat rare diseases, multiple sclerosis, cancer and diabetes.

Chris Hiorns runs **EdenTree Amity European (GB0008448333)** and is a fan of Sanofi thanks to its strong position in vaccines and diabetes.

For a pharma stock to reach his coveted top 10 holdings, they need decent valuation, a good balance sheet, strong dividend yields and cash generation, as well as a low price to earnings ratio. Sanofi ticks the right boxes.

**DIABETES IS EXPECTED TO AFFECT 642 MILLION PEOPLE BY 2040**

Source: Diabetes UK



## MERCK \$63.76

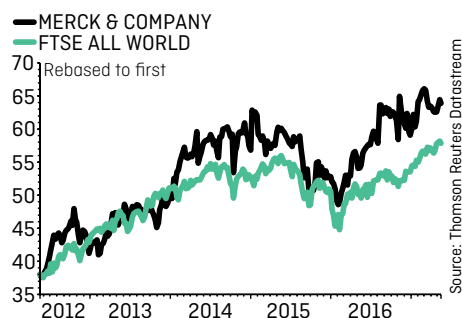
MERCK CREATES MEDICINES, vaccines and animal health products. It is working with Pfizer to develop the antibody Avelumab to find and attack cancer cells.

Campbell at Saracen is optimistic that Merck's prescription medicine *Keytruda* has huge potential to tackle a

specific type of skin cancer called melanoma. The medicine generated approximately \$1.4bn of sales in the year to 31 December 2016.

According to Campbell, the drug is expected to grow significantly with \$6.5bn in revenue forecast over the next five years.

Hiorns at Amity is also keen on Merck, saying it is a diversified business that specialises in life sciences to provide solutions such as chemical reagents, as well as specialty chemicals for LCD TV screens.



## INVESTING IN THESE STOCKS VIA FUNDS

THE AFOREMENTIONED LARGE cap pharma stocks appear in many different funds available to UK investors.

For example, anyone wanting to own both AstraZeneca and GlaxoSmithKline could do so via Liontrust Special Situations or M&G UK Income Distribution.

The Liontrust fund has delivered 15.5% annualised returns over the last five years. It identifies companies with intangible assets that produce barriers so they can beat rivals and sustain higher profitability.

Alongside the two drug companies are stocks from various other sectors such as oil producer **BP (BP.)** and drinks giant **Diageo (DGE)**.

If you don't want the broad sector exposure, look for a more specialist fund. For example, **Polar Capital Global Healthcare Growth and Income (PCGH)** has Merck, Sanofi, Roche, GlaxoSmithKline and Johnson & Johnson in its top holdings.

Fund manager Dan Mahony looks for diversified companies with strong balance sheets, as well as free cash flow growth for dividends, share buybacks and acquisitions.

The fund has delivered 15.6% annualised total returns to shareholders over the past five years. (LMJ)

# ARE YOU A FAN OF SMALL CAP STOCKS?

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ON PAGE 46



# Which fund managers excel at communication?

We reveal our top picks for firms which clearly explain their investment process and keep investors up-to-date on events



**W**e believe every fund or investment trust should provide crystal clear information on how they look for investments, what they choose and how they manage their portfolio.

Sadly the quality of communication is variable across the industry. We will therefore use this article as a way of championing some of the asset management houses who excel at communication, in our view.

As a retail investor, choosing the funds or investment trust route means trusting someone else to make investment decisions. You are paying a fee to the asset manager, so they have a duty to tell you what they are doing.

At worst, some funds or investment trusts will only publish

a brief document once every three months which contains their top 10 holdings and some performance data. We'd rather have insightful commentary once a month on their investment thinking and a complete breakdown of their portfolio.

We also believe asset managers could go a lot further in terms of providing information to investors. To give you some examples, let's now look at five core areas which we believe elevate a fund or investment trust above the rest when it comes to communication.

## 1. GOOD AT EXPLAINING THEIR INVESTMENT PROCESS

Wouldn't it be nice if a fund or investment trust had a clearer strategy than only saying they look for growth stocks or ones

that pay dividends? Fortunately there is a growing number of fund management companies which explicitly state what they desire when seeking investment opportunities.

Three great examples are Phoenix Asset Management, particularly for its work as manager of **Aurora Investment Trust (ARR)**; Fundsmith for its two funds; and Liontrust for its multitude of products.

Phoenix has published 'Primer' documents that explain its culture and its investment approach; as well as describing what investors can expect from its fund and investment trust range.

Putting all this information, together with a performance history over each of the past 20 years, in a single document

provides a powerful starting point for investors to then delve into its products.

As an aside, we note Phoenix's website includes a list of its favourite investment books. It is always interesting to see what influences and stimulates the thought process of professional fund managers.

### DEMAND MORE THAN A GLOSSY BROCHURE

Fundsmith publishes an 'owners' manual' on its website, a somewhat different document than the typical glossy brochure you might receive from a fund manager.

'Your understanding of what we are trying to achieve and how we will approach it is a critical element in enabling us to attain our goal,' says Fundsmith, explaining why the manual is important.

This document details what Fundsmith likes, and doesn't like, as well as talking about its investment process in simple-to-understand language.

### STOCK PICKING GUIDE

Liontrust has a section on its website called 'The power of process' which provides a fascinating insight into how its fund managers pick stocks.

For example, it provides written information and a video talking about its 'Cashflow Solution' process and listing the four funds in its range which are managed under that process. Other processes include 'Economic Advantage' and 'Structural Opportunities'.

'At the heart of the Liontrust culture, which was launched in 1995, is the fact that our fund managers run funds and processes according to distinct investment processes which are documented and available on our website to retail investors,' says chief marketing officer Simon Hildrey.

'This means that investors in our funds know exactly how each team will manage their money and this helps them in blending our funds with others within their investment portfolio.'

Liontrust's website was revamped in March this year with the objective of being accessible to all types of investors, regardless of their experience and knowledge of investment,' adds Hildrey. 'Around 95% of the content and information on our website is open to all investors, unlike many other fund management websites that ask visitors what type of investor they are.'

The asset manager also has a consumer panel of private investors who meet twice a year and provide regular feedback on Liontrust's fund marketing and communication. Having the general public involved in the communication process should help to ensure Liontrust's marketing is easy to understand and does not succumb to the jargon you often see in the finance industry, in our opinion.

## 2. GOOD AT REVEALING WHAT'S IN THEIR PORTFOLIO

We believe that asset managers should tell investors exactly where they've invested their money, not simply the top 10 holdings in a fund.

Some managers include the full holdings in the annual report. We'd prefer to see a table that is updated monthly with the full holdings. Woodford Investment Management is one of the few fund houses to provide full disclosure. You can see the full holdings for its three funds which include **CF Woodford Equity Income (GB00BLRZQ620)** via its website.

'We recognise that openness and transparency are key in building client understanding and we ensure that our clients get unprecedented levels of

**'YOUR UNDERSTANDING OF WHAT WE ARE TRYING TO ACHIEVE AND HOW WE WILL APPROACH IT IS A CRITICAL ELEMENT IN ENABLING US TO ATTAIN OUR GOAL'**



clear and relevant information about their investments, including unparalleled access to our investment team and transparency into our portfolio construction,’ says Woodford.

### 3. GOOD AT REVEALING THEIR LATEST THOUGHTS ON PARTICULAR STOCKS

We believe it is vital to have regular insight into how a portfolio is performing and comment on the good and bad holdings.

A boring fact sheet will just contain data. A good fact sheet will include a summary of the previous month or quarter’s events, such as big news for particular holdings. A great fact sheet will reveal how the fund manager is embracing opportunities or dealing with challenges.

Annabel Brodie Smith, communications director at the AIC (which promotes the investment trust industry); gives four examples of fund managers who she believes provide ‘really interesting’ commentary.

She picks Sebastian Lyon at **Personal Assets Trust (PNL)**, Nick Train at **Finsbury Growth & Income (FGT)**, Ben Rogoff at **Polar Capital Technology Trust (PCT)** and Bruce Stout at **Murray International Trust (MYI)**.

### 4. GOOD AT COMMENTING ON THEIR ANNUAL REPORTS AND ACCOUNTS

Annual reports can provide a much greater insight into a fund or trust’s strategy than half year or full year results.

The 2016 annual report from real estate investment trust **GCP Student Living (DIGS)** is a



great example of how you can obtain a considerable amount of information on a trust’s activity and its broader market.

The report includes historical information on earnings, valuations and dividends, as well as explaining its strategic objectives and lots of details on its property portfolio, among other items.

### 5. GOOD AT KEEPING IN TOUCH WITH INVESTORS

Baillie Gifford says it is now reaching more investors as a result of increasing the range of communication activity.

Historically it has offered information via its website and produced a magazine twice a year called *Trust*. Now it also provides fund manager videos, runs regional events and writes more thought-provoking content.

‘We do much more in the way of events these days and our content has improved a lot,’ says James Budden, director of marketing and distribution at Baillie Gifford. ‘We are reaching more people.’

The asset manager has built a database of 65,000 interested investors and potential customers with whom it regularly interacts. It sends them content such as white papers and the aforementioned magazine

which looks at investment thinking and trends. ‘They are viewpoints rather than saying “buy our investment trusts now”,’ comments Budden.

Each of Baillie Gifford’s trusts – which include **Edinburgh Worldwide Investment Trust (EWI)** and **The Monks Investment Trust (MNKS)** – has their own annual general meeting. The asset manager also runs two private investor forums a year, one in London and the other in Edinburgh, featuring four of its fund managers.

It has also started to run specific forums for its best-known trust, **Scottish Mortgage (SMT)**, given it is now a member of the FTSE 100. An event has just been held in Birmingham for investors and there is one coming up in June in London. (DC)

Which funds and investment trust providers do you rate best for shareholder communication? Email us at [yourviews@sharesmagazine.co.uk](mailto:yourviews@sharesmagazine.co.uk)

**DISCLOSURE:** The author has a personal investment in Fundsmith Equity, Fundsmith Emerging Equities Trust and Scottish Mortgage referenced in this article.



# Why investors should read annual reports

They provide greater insight into a firm's prospects than full-year results

A full-year results statement is a useful document for understanding how a company has performed over the last 12 months but if you want a deeper insight the annual report is a much more worthwhile read.

You might think annual reports are simply full-year results in a pretty format. In fact, they can offer a huge amount of extra information to help you analyse a company's investment case.

This includes the company's position in the market, its risks and opportunities, its long-term performance and its governance. The reports are generally available on the relevant company's website.

## PACKED WITH INFORMATION

Before you start reading an annual report you might want to make yourself a cup of tea because they can be absolutely enormous. **HSBC's (HSBA)** 2016 annual report runs to a whopping 284 pages.

Thanks to the wonders of technology and graphic design, annual reports are often laid out in eye-catching, investor-friendly formats with diagrams and cartoons to help you along the way.

Packaging company **DS Smith (SMDS)**, which won an IR Society award for its annual report, uses a range of infographics to help you understand the business.



There are pictures of its customers' products to help you differentiate it from other packaging companies. There is also a 'heat map' showing the business' biggest risks and opportunities.

## LONG-TERM PICTURE

Hugo Fisher, group communications director at DS Smith, says an annual report provides the reader with a more rounded and long-term picture of the business and its strategy.

'The full-year results describe the financial performance for that one year – they are a short-term piece of work.

'The annual report enables you to truly understand the

business – its model, the markets it operates in and how it looks at risks and sustainability. It provides more colour around strategy, people and governance,' he says.

Fisher says the figures used in DS Smith's annual report are exactly the same as the full-year results statement, but there may be additional operational statistics on areas like service and quality metrics and sustainability measures.

## BUSINESS CONTEXT

The quality of annual reports does vary. Some may be simply a collection of sections with no common thread, whereas others are coordinated with all aspects

of the business linked together.

Naomi Kissman, head of investor relations and corporate communications at newsagent chain **McColl's (MCLS)**, which was highly commended for its annual report by the IR Society, says the annual report is a useful way of providing investors with business and market context.

'The large and growing convenience sector is one of the sweet spots of the UK grocery industry and is not always well understood. Therefore, we feel that it's important to provide compelling industry context,' she says.

Kissman believes this information helps both existing and prospective shareholders to have an understanding of where McColl's sits in the market and the fundamentals underpinning its investment case.

## GOOD INTRODUCTION TO A COMPANY

Annual reports are a lot more eye-catching than full-year results statements, but it's important not to be won over by any flashy graphics.

Nick Davis, fund manager of **Polar Capital European Income (IE00BR4SYW82)**, says the management commentary at the front of most annual reports can give a great overview for people taking their first look at a new company.

Once you've got a basic understanding, there is a huge amount of disclosure to help you understand the company's prospects.

'As dividend investors, we take particular interest in the cash flow statement and related notes to understand use of cash and



sustainability of current dividends.

'The leases and off balance sheet disclosures are also worth checking to make sure that low optical balance sheet leverage is not misleading,' Davis says.

## THE VERY IMPORTANT BITS

Russ Mould, investment director at AJ Bell Youinvest, also suggests looking at the balance sheet, as well as cash flow and profit and loss account – in that order.

'Companies will try to present their accounts in the most flattering light possible but cash on a balance sheet and the cash flow statement are a lot harder to embellish and flatter than the profit statement,' he says.

Mould recommends looking at the notes to the accounts because that is where there could be skeletons deeply hidden in cupboards. Gibberish footnotes can be a red flag that the company is trying to gloss over something. Never invest in anything you do not understand.

Most companies that go bust still have cash on the balance sheet and may even be making a profit. The balance sheet will tell you when specific chunks of debt

must be repaid, so you can weight that against the company's other cash needs such as salaries, tax bills and the necessary research and capital investment.

## DIRECTOR SALARIES AND BONUSES

The annual report will often contain individual profiles of the board of directors, both executive and non-executive, so you can make sure they have the right skills to help the company thrive.

'Check out how much money the directors are paid and especially how bonuses and stock options are triggered, to ensure their interests are aligned with yours,' Mould says.

'You want them to have to work hard for their rearies, not merely reach a performance bar so low that they could virtually fall over it and still cash in.'

Many firms emphasise 'adjusted' earnings but there are potential red flags you can look out for. These include frequent restatement of the historic numbers, resetting of the triggers for executive bonuses and a revolving door of non-executive directors. (EP)

# What election manifestos DON'T say on pensions

There are unanswered questions on two important personal finance issues

**E**lection manifestos from the Conservative and Labour parties include several points relevant to retirement – but they also neglect to address several important factors.

Jeremy Corbyn has pledged to keep the state pension triple-lock policy for the entire Parliament. Theresa May is planning to replace it with a double lock – linking the payment to the highest of earnings and prices – from 2020.

Labour has pledged to stop planned increases in the state pension age beyond age 66. It wants to look at alternatives which take into account variations in life expectancy based on things like type of work and where someone lives.

The party would have to tread carefully to avoid re-introducing the crippling complexity of means testing to the state pension.

The danger is that Labour makes the perfect the enemy of the good by trying to create a fair regime and, in the process, layering on huge administrative cost and making it more difficult to navigate.

## MISSING FROM THE MANIFESTOS

It is not just what the major parties say that matters. Sometimes what they don't say is equally important.



The Conservative manifesto, for example, is conspicuously silent on its plans to increase the state pension age.

We can probably take from this that, if Mrs May does win power; she will proceed with plans set in train ahead of the election.

That could mean those in their 20s today have to wait until they're 70 to receive anything from the state – a potentially daunting prospect which re-emphasises the importance of taking control of your own financial future.

## QUESTION MARK ON TAX BENEFIT

On pension tax relief, both Labour and the Conservatives say nothing at all. This is particularly surprising given Labour's commitment to tax those earning over £80,000 at 45% and introduce a new 50% tax band on earnings above £123,000.

Because pension tax relief is granted at your marginal rate of income tax, this policy – which is clearly targeted at the 'rich' – will lead to more retirement tax perks going to those with higher incomes. It seems highly unlikely that Labour's leader, an outspoken Socialist, intends for this to be the case.

The Conservatives have at least committed to a review aimed at simplifying the tax system. Hopefully this would strip away some of the horrible rules retirement savers face, particularly around the Lifetime Allowance.

However, it must not be used as an excuse to cut back savings incentives, and any reform should have a clear aim of encouraging more people to put money away for their retirement.

Tom Selby,  
Senior Analyst, AJ Bell





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# Dixons Carphone's deep value appeal

Retail titan's market share and resilience are significantly underrated

A near-25% share price decline in electricals and mobile phone retailer **Dixons Carphone (DC.)** over the past year puts the £3.8bn cap in deep value territory. That's according to Liberum Capital which believes the shares could rebound by at least 30% over the next year to 430p.

Liberum says the *Carphone Warehouse-to-Currys PC World* brand owner is its 'favourite value play'.

Dixons Carphone is considered to be a long-term structural winner, taking over 25% market share in its core retail geographies and 'gaining share faster than any competitor' through its leading specialist multi-channel position and deep supplier relationships.

Formed through 2014's merger of Dixons Retail and Carphone Warehouse, Dixons Carphone is a far more defensive business than before the financial crisis, says Liberum.

International market shares are bigger, the multi-channel offering is superior and the enlarged group is more competitive on price, not forgetting higher mobile exposure.

Liberum reckons shareholders are getting Dixons Carphone's service operations almost for free, if peer group valuations are applied to its core retail business.

The broker says the core retail arm should be valued at an enterprise value (EV) of £4.3bn. This compares to a current group EV of £4.5bn; forecast net debt and pension liabilities of £269m and £474m respectively plus the market cap.

This means the market is attributing scant value to the growing service division, which consists of 'KnowHow' and Connected World Services (CWS), Dixon's business-to-business operations including software platform honeybee and the US Sprint joint venture store roll-out. Liberum sees 'strong potential upside' to come from CWS, in particular.

Full year results on 28 June offer a potential re-rating catalyst, should the announcement provide greater visibility on the CWS operations.

Ahead of the numbers, Liberum forecasts pre-tax profit of £486m (2016: £447m), earnings of 31.5p (2016: 28.4p) and a dividend hike from 9.8p to 10.6p.

We see merit in the broker's bullish analysis, although risks include the scope for falling big ticket electrical sales as inflation rises and household budgets are squeezed.

There's also the threat of more intense competition and the risk mobile operators expand their own store networks.

## SHARES SAYS: ↗

**Dixons Carphone is a structural retail winner and we're buyers at 328.9p. A prospective PE ratio of 10.4 discounts too much Brexit-related doom and gloom. (JC)**

**BROKER SAYS:** 14 3 0



# New boss set to wake up sleepy gold miner

Ambitious reverse takeover is reason to take another look at Stratex International

**N**ew leadership and a proposed reverse takeover are good reasons to take another look at small cap miner **Stratex International (STI:AIM)**. We think the market has failed to spot the importance of several news announcements over the past two months.

We rate Stratex as a speculative buy at 1.52p. There is no guarantee its plans will be successful, but this looks one of the more interesting situations among small cap miners on AIM at present.

Previous management spread the company's interests too thinly with countless exploration projects. Admittedly, two small gold mines were brought into production under joint ventures but they failed to trigger a share price re-rating.

Marcus Engelbrecht was hired in September 2016 to revive the business. He's best known as the old boss of former AIM-quoted Archipelago Resources which developed a decent size gold mine in Indonesia. The company was acquired at a 49% premium to its market price in 2013.

Stratex has proposed an A\$54m reverse takeover of Australia-listed Crusader Resources. That would give it a small producing iron ore mine and two near-term producing gold mines, all in Brazil.

We doubt the iron ore project will stay in the portfolio. The chief executive says it is too early to make a decision, but he does mention the asset isn't generating much cash.

Earlier in May, Crusader said it was trading more than five times cheaper than its peer group on the Australian and Canadian market.

'Crusader has been under the radar of Australian investors because they aren't familiar with Brazil as a destination,' claims Engelbrecht.

Approximately A\$70m has historically been spent on the two gold assets. It seems clear that Crusader has now run out of money to take them into production.

Engelbrecht is well known among UK analysts and institutional investors; and those relationships will be important for raising the company's profile



in the near future when it needs to find the cash to build the two Brazilian mines – assuming its takeover is successful.

Stratex recently sold its 45% interest in the Altintepe mine in Turkey for \$8m; this figure was net of costs and taxes. Theoretically that cash could fund exploratory work on the Brazilian gold assets and help Stratex have a firmer plan for how it would bring the assets into production.

## SHARES SAYS: ↗

It is good to see Engelbrecht take bold steps to revive Stratex. Brave investors buying now should be prepared for short-term price volatility as some existing shareholders may not like the shift from exploration to potential near-term production, and thus they could sell. More risk-averse individuals should watch from the sidelines. (DC).

## BROKER SAYS: ○ ○ ○



# Blue Prism spells out digital 'spine' dream

Shares set new record as deeper strategy is unveiled

**V**irtual workforce technology disruptor **Blue Prism (PRSM:AIM)** has revealed plans to integrate itself far deeper into its large customers.

The company says its strategy is to now become the 'spine' of large organisations' digitalisation strategy rather than act as merely a support tool.

Blue Prism has designed a robotic process automation rules-based software platform that automates manual back-office administration.

The benefits to customers include lower costs, improved customer service and speed, plus a reduction in the need to retire legacy IT systems to improve efficiencies.

Employees are benefitting from this service as tedious input tasks can be stripped from daily workflows, improving job satisfaction and enabling staff to work on other more fulfilling activities.

One energy supply customer was able to speed up its bill generation process, cutting the average time taken per invoice from 20 minutes to a few seconds.

Blue Prism has become a stock market superstar almost overnight. It joined AIM on 18 March 2016, raising a total of £21.1m at 78p per share.

The share price set new record highs of 870p on 19 May this year, helped by investors learning about its longer term strategic plans.

Analysts have raised earnings forecasts multiple times since the company joined AIM. Investec currently anticipates revenue to more than double in 2017 to £20m.

It is worth noting that Blue Prism is not expected to become profitable for several years despite rapid sales growth. (SF)

## LightwaveRF leaps on Google launch

SMART HOME TECH tiddler **LightwaveRF's (LWRF:AIM)** shares leapt 59% to 24p on news (18 May) it has launched Google Assistant voice control for Google Home across its product range. Although half-year results (19 May) revealed continuing losses for the group, sales are growing strongly and brand awareness is building under new CEO Andrew Pearson. Its shares have since eased back to 20.6p, albeit still remain 23% ahead year-to-date. (JC)

## Plexus fights back after profit warning

OIL WELLHEAD SPECIALIST **Plexus (POS:AIM)** is bouncing back from a profit warning on 16 May thanks to winning its first order from Norway's largest independent petroleum producer, Aker BP, three days later. Its share price has been very volatile this year, surging from 75p at the start of 2017 to 125p a few weeks later, before hitting a low of 60.25p upon May's profit warning. It now trades at 72.1p. (TS)

## Forbidden broadcasts its eSports ambition

CLOUD-BASED VIDEO editing and broadcast platform developer **Forbidden Technologies (FBT:AIM)** has signed its first customer in the emerging eSports space. The agreement is with eSports competition organiser **Gfinity (GFIN:AIM)** which will use Forbidden's *ForScene* platform to allow highlights of its Elite series of events to be screened on social media. Analysts believes the eSports industry could be worth \$1.49bn by 2020. (SF)

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## KEY

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- **AIM**
- **Fund**
- **Investment Trust**

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# SHARES SPOTLIGHT

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# INTRODUCTION

**W**elcome to *Spotlight*, a bonus magazine which is distributed six times a year alongside your digital copy of *Shares*.

It provides small caps with a platform to tell their stories in their own words.

The company profiles are written by the businesses themselves rather than by *Shares* journalists.

They pay a fee to get their message across to both existing shareholders and prospective investors.

These profiles are paid-for promotions and are not

independent comment. As such, they cannot be considered unbiased. Equally, you are getting the inside track from the people who should best know the company and its strategy.

Some of the firms profiled in *Spotlight* will appear at our investor evenings in London and other cities where you get to hear from management first hand.

**[Click here for details of upcoming events and how to register for free tickets.](#)**

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# AIM's brightest stars

## How junior market companies have made it big

**T**he best small companies do not remain small forever. Many companies which began life as minnows on London's junior stock market AIM have since become substantial concerns.

A growing number of these AIM graduates now generate hundreds of millions of pounds in revenue and profit. Identifying these big growth stories at an early stage is one of the key reasons why so many investors like small cap stocks.

Some well-known brands began their journey on AIM including the UK franchise of **Domino's Pizza (DOM)**, tapas chain La Tasca, brunch destination Carluccio's and holiday village Center Parcs.

Several of these companies progressed to London's Main Market; others were taken over for healthy premiums to their market price.

### BIG AIM WINNERS

Lesser known names have also been successful over the years. Irish oil services business Kentz joined AIM in February 2008 with a market valuation of £133.8m and was acquired a little over six years later by Canadian firm SNC-Lavalin for more than £1bn.

Many companies still on the junior market have richly rewarded shareholders over the years – and their growth story is still intact.

Flooring manufacturer **Victoria (VCP:AIM)**

has enjoyed a purple patch in recent years under executive chairman Geoff Wilding.

Since taking control in 2012, Wilding has turned Victoria round and made a series of astute acquisitions in fragmented UK and Australian carpet industries, triggering a flurry of earnings upgrades.

There appears to be further scope to execute this strategy in an industry which is highly fragmented, inefficient and flush with retiring owners. That said, the pressure on UK consumers from rising inflation represents a risk to future growth.

### KEY DRIVERS

The big driver for conglomerate **Dart Group (DTG:AIM)** is its travel arm which encompasses the Jet2.com airline. The company has been adding to its fleet of planes and in April guided for full year profit to be ahead of expectations.

Timber merchant **James Latham (LTHM:AIM)** was founded at the dawn of the 20th century and has been profitable through any number of stock market cycles.

Improving revenue and prudent cost control is having a positive impact on operating results for the business. James Latham has net cash on the balance sheet and its forecast dividends are comfortably covered by earnings.



Theoretically, that implies plenty of scope for further dividend hikes.

AIM is considered to be a stepping stone for growth companies – either to graduate to London's Main Market or being taken over.

Let's now discuss two companies which are now in the FTSE 250 and one stock that is bigger enough to be in the FTSE 100 but which has bucked the trend and stayed on AIM.



#### PETRA DIAMONDS (PDL)

Now one of the most successful London-listed mining firms, diamond play **Petra Diamonds (PDL)** joined AIM back in 1997 with a market valuation of less than £10m and a handful of exploration interests.

Today it is an established constituent of the mid cap FTSE 250 index, pays a healthy dividend and has several major producing mines.

Things got off to a shaky start as several acquisition attempts fell through in the final stages but the story really began to accelerate in May 2005 thanks a merger with Australian peer Crown Diamonds.

This added producing mines to the portfolio and operational expertise to the business. After several other corporate deals, Petra used the purchase of the Finsch mine in January 2011 as the catalyst to graduate from AIM to the Main Market.

#### ENTERTAINMENT ONE (ETO)

Last year's £1bn bid from **ITV (ITV)** for **Entertainment One (ETO)** shows just how far the film and TV shows distributor and producer has gone since it joined AIM, subsequently moving to the Main Market in July 2010.

ITV's ultimately unsuccessful takeover approach compares with a market capitalisation of £84.4m at the original AIM placing price of



100p a share back in March 2007.

The business was formed at that time by the acquisition of the Entertainment One business, which was a major North American wholesale distributor of DVDs, CDs and video games.

Since then, several acquisitions have turned the company into a wide-ranging film, TV and music content owner as well as distributor.



#### ASOS (ASC:AIM)

Online fashion retailer **ASOS (ASC:AIM)** floated on AIM in 2001 at 20p and it remains on the market today, despite being valued in the blue chip territory of £5.1bn

It has successfully capitalised on the trend towards shopping over the web such that, according to data from SharePad it has generated a 26,000% total return for shareholders.

If you had invested £10 at the closing price on the first day of trading, your investment (including dividends) would on paper be worth more than a quarter of a million pounds.

The departure of its founder and chief executive Nick Robertson and growing pains which led to profit warnings and earnings downgrades appear to have been overcome.

Under the leadership of Nick Beighton, the company continues to deliver rapid overseas growth and impressive UK sales progress at a time when domestic UK apparel retailers are struggling.



# AB Dynamics is accelerating

**A**B Dynamics (ABDP) was established in 1982 and is engaged in the design, manufacture and supply to the global automotive industry of advanced testing and measurement products for vehicle suspension, brakes and steering both in the laboratory and on the test track. The company has grown rapidly in the past six years with over 95% of sales to export. The group's products are used for research, development and production quality control.

Being both profitable and highly cash generative, directors believe that since its listing on AIM in May 2013 the group has become one of the leading UK suppliers in its market, with customers including the research and development divisions of some of the world's leading vehicle manufacturers. The company's products help the car companies make vehicles that are more pleasant and safer to drive.

## GLOBAL BUSINESS

The automotive companies operate in a very diverse space and in global markets. In the past eight years R&D spending has grown steadily with existing car manufacturers based in the



mature markets of Europe, Japan and North America. Indeed, the top six highest spending automotive companies still come from these markets. Spending continues at a pace in China and other areas of the developed world. As development of car technology moves ahead to catch up with the car industry of the developed world.

**THE  
COMPANY'S  
PRODUCTS HELP THE  
CAR COMPANIES MAKE  
VEHICLES THAT ARE  
MORE PLEASANT  
AND SAFER  
TO DRIVE.**

Automotive companies now spend far more of their R&D budgets outside of their headquarter countries than in the past. While domestic R&D spending went up by 11% from 2007 through 2015, exported R&D increased by a dramatic 42%. That's significantly more than the increase in the other two largest sectors, computing and electronics and healthcare.

## DRIVERS FOR AUTOMOTIVE R&D

The car makers, facing an ever growing demand for cars that are better and safer to drive, are employing new and increasingly more sophisticated technologies; this is the most innovative time in automotive history. Today's cars more than just transportation. They are likely to deploy the most complicated and advanced technology owned by most consumers—and with every new day, vehicles are becoming more advanced.

In the field of car safety for example, automakers historically have focused on engineering vehicles to enhance occupant protection in the event of a crash. That is why automobiles today have a range of airbags – front, rear, side and even curtains – as well as a long list of safety enhancements, including structural reinforcements to

the passenger compartments and advanced safety belts. The future of vehicle safety has expanded into technologies that help prevent or mitigate crashes.

Crash avoidance, or 'driver assist' technologies employ sophisticated software to interpret data from sensors, cameras, and radar based technologies that allow vehicles to sense the environment around them and assist drivers by alerting them to impending dangers. The industry is constantly looking for faster and more efficient ways to design new vehicles.

Greater use of computer aided design and modelling has emphasized the need to acquire more accurate and reliable vehicle data on which mathematical car models can be based. More use of 'virtual' prototyping and simulation is leading the way for newer ways of testing and evaluation, shortening the time to market. Recent demand for technology to evaluate and test driverless/ autonomous car technology has led to an uplift in orders for the company's ADAS testing technology.

#### KEY CAPABILITIES

From its facilities in Bradford on Avon, UK, the group designs and manufactures specialised testing systems for its customers to:

- Develop Suspension, Brake, Chassis and Steering systems.
- Evaluate Vehicle Dynamics and safety systems on the track.
- Employ Driver in Loop

Simulation for rapid prototyping.

- Develop and evaluate the next generation of advanced safety system in vehicles (ADAS).
- Test and evaluate the technology for use in future driverless cars/ autonomous vehicles.
- Carry out sophisticated end of line Noise/ Vibration (NVH) testing of power train assemblies.

The company's key strength is its ability to rapidly deploy inhouse knowledge and knowhow in mechanical, electrical and software design and to blend these disciplines to create unique and novel products for the automotive testing industry.

By supplying testing equipment which allows customers to have whole cars tested in realistic conditions/ scenarios, its products can provide repeatable, accurate and reliable vehicle data on which mathematical car models can be based. Many key customers see the company as being capable of providing a synergy of solutions to assist them in their product development.

#### IMPROVED PRODUCTS AND GREATER GLOBAL REACH

AB Dynamics has become a recognised leader in the supply of whole car solutions for vehicle testing. The company has spent more on research and development than in previous years and has seen the performance, quality and reputation of

## SHARES SPOTLIGHT

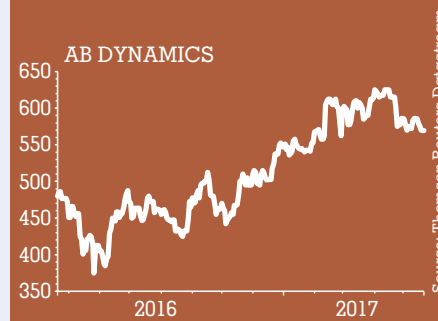


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ENGINEERING

**SHARE PRICE:** 586P

**MARKET CAP:** £111.3M



its products lead to steady growth in their uptake. Further expansion of its global network of distributors and regional offices has included the establishment of a commercial director based in Germany to create better links with the German OEMs and a global remit to work with the company's distributor network to improve its commercial offer to key customers world-wide.

To build on the company's reputation for good customer service and to reflect the fact that more systems are out in the field than ever before, it has also established a customer support team, consisting of engineers located in the UK, Germany and Japan, ready to give local and direct support to distributors and customers alike.

# Alliance Pharma is transformed

**O**n 29 March 2017, Chippenham-based **Alliance Pharma (APH:AIM)** announced its full year results for the year ended 31 December 2016. The results showed a company transformed: turnover had doubled to almost £100 million and profit had doubled to more than £22 million.

This step change in financial performance reflects the positive effect of a major acquisition in December 2015, when Alliance paid £127.5m for the dermatology and woundcare businesses of AIM-quoted **Sinclair Pharma (SPH:AIM)**.

## BIGGEST ACQUISITION TO DATE

Alliance, a dividend-paying specialty pharmaceutical company, has a successful track record of acquiring both products and businesses and the acquisition of 27 products from Sinclair Pharma was by far the company's biggest acquisition to date.

The full year results confirmed that Alliance had successfully integrated the products and successfully grown its geographic footprint. Formerly a business with the majority of its sales in the UK, Alliance is now a much more international business with a reach that extends to more than 100 countries worldwide.

In Europe, Alliance has



offices in all the 'big five' economies: the UK, Germany, France, Italy and Spain. It also has offices in Singapore and Shanghai, giving a direct presence in China and South East Asia.

This expanded international footprint, and associated operational capabilities, brings a new growth opportunity to Alliance: the international roll-out of products identified as having worldwide growth potential. Its enlarged business also gives Alliance a much greater ability to compete for international acquisition opportunities.

John Dawson, who founded Alliance in 1998 and brought the company to the AIM market in 2003, says: 'Our vision is to be the rising star of European specialty pharma. Our enlarged business and our expanded international footprint will help to drive the company towards achieving that ambition.'

Alliance is already seeing the benefit of its larger European footprint. Back in January 2015, Alliance acquired marketing rights in the UK to Diclectin, a proven product to treat nausea and vomiting of pregnancy. The rights were acquired from Duchesnay Inc., a company based in Canada where the product has been used for more than 30 years.

## EXPANDED EUROPEAN FOOTPRINT

John Dawson says: 'When we in-licensed the UK rights in 2015, we had a presence in Germany and France but we didn't have offices in some of the other key European countries. We now have an excellent footprint throughout Europe, which was underlined by Duchesnay Inc. granting to us in September last year additional marketing rights for Diclectin in a further nine EU countries including Germany, France and Italy.'



There is currently no licensed treatment for nausea and vomiting of pregnancy in the UK, nor in most European markets. Extensive market research points to the large unmet need for such a treatment, prompting analysts to forecast potentially £40 million of sales in the five years after launch.

As well as exemplifying the commercial potential of Alliance's strengthened European distribution base, Diclectin is one of three products that Alliance has identified as having the potential for international growth.

Diclectin is currently in registration with UK regulatory authority, the Medicines and Healthcare products Regulatory Agency (MHRA), whereas the other two products identified for international roll-out, Kelo-cote and MacuShield, are already growing strongly in various countries worldwide.

Kelo-cote, a silicone gel for the treatment of scars, achieved

sales in 2016 of £10.1m and delivered impressive sales growth of around 32%. Scar treatment is a rapidly growing market, with an estimated growth rate of 10%. China and Brazil have to date been the biggest markets for Kelo-cote, which is already sold in 65 countries worldwide.

The third product identified for international growth is MacuShield, a dietary supplement for age-related macular degeneration. The product was acquired by Alliance in early 2015 and has grown very strongly, increasing sales by 40% in 2016 to £5.3 million. The vast majority of these sales are currently in the UK and Ireland but there is also significant potential in other markets including Japan, Russia and Poland.

John Dawson says: 'Having successfully integrated the Sinclair products, we are focusing our investment on our three international growth opportunities – Kelo-cote, MacuShield and Diclectin – and also on products with good growth potential in local markets. We call these our 'local hero' brands, and they include products such as the Hydromol dermatology brand and Ashton & Parsons teething powders.'

### A BUMPER PORTFOLIO

Alliance's product portfolio now comprises more than 90 products, including prescription medicines and consumer healthcare products and brands. Around 70 of these are so well-established



## SHARES SPOTLIGHT



### WEBSITE:

WWW.ALLIANCEPHARMA.CO.UK

### SECTOR:

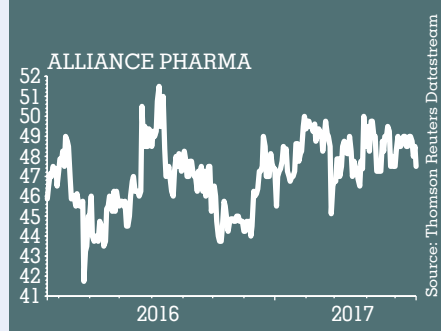
PHARMACEUTICALS & BIOTECHNOLOGY

### SHARE PRICE:

49P

### MARKET CAP:

£229.4M



that they have predictable sales and require little or no marketing spend. The stable cash generation from these products is re-invested in the marketing of growth brands, either locally or internationally, and contributes to dividend payments to shareholders. Alliance's appetite to further expand its product portfolio is undiminished.

John Dawson says: 'A key objective at Alliance is to create value for shareholders through organic growth and through our buy-and-build strategy. We have some very exciting organic growth opportunities, such as Diclectin, and we also now have the operational capabilities and international distribution to deliver bigger, value-enhancing acquisitions.'

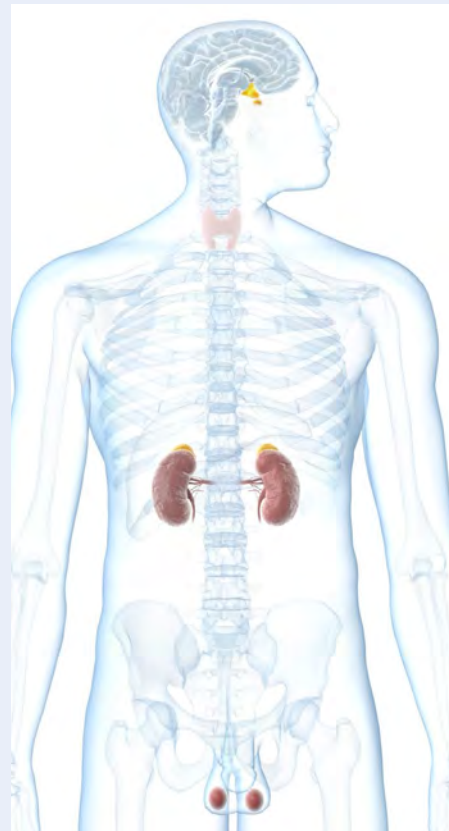
# Revenues in sight for Diurnal

**D**iurnal Group plc (DNL:AIM) aims to become a world-leading endocrinology specialty pharmaceutical company targeting treatments in certain under-served chronic hormonal diseases that, combined, represent a multi-billion dollar market opportunity.

Following its initial public offering in December 2015, Diurnal has consistently delivered on key milestones and anticipates its first product regulatory approval in late 2017, with launch beginning in 2018. Diurnal believes that it has an opportunity to become one the few UK biotechnology companies to successfully take a product from concept to commercialisation.

## FOCUS ON HIGH-VALUE, UNDER-SERVED MARKETS

A number of large pharmaceutical companies are focused on the well-known endocrine disorder, diabetes, which represents a discrete multi-billion dollar market, and is well-served by existing therapies. However, there are many other endocrine disorders, which Diurnal believes are significantly under-served and therefore represent an opportunity for a smaller, focused company to address the unmet patient needs and, subsequently, build a valuable business. These endocrine disorders are



typically managed by specialist physicians based in major hospitals; therefore, the term 'speciality pharma' is typically used for companies focused on such diseases.

## BUILDING A SPECIALTY PHARMA PARTNER OF CHOICE IN EUROPE

Diurnal's products are expected to be prescribed by endocrinologists predominantly located in a small number of specialist centres. Diurnal believes that the concentrated nature of these centres provides a significant opportunity to build a cost-effective, focused sales and marketing operation in Europe, which should

enable the company to retain the full value of its products.

As such, Diurnal has made significant progress in establishing its European commercial operations, supplementing its small, focused, in-house commercial team through contracts with two divisions of UDG Healthcare, a leading international services provider: firstly, with Ashfield Healthcare to establish a contract sales organisation in Europe, and secondly with Sharp Packaging Services to bring expertise to its global supply chain.

Diurnal also believes that this European commercial infrastructure will create a base for growth through development of further in-house opportunities, and through in-licensing, by making Diurnal an attractive partner for companies seeking to commercialise endocrinology-focused products in Europe.

In the US, Diurnal is likely to capitalise on the interest in its products from third parties with established sales and marketing operations to seek a commercialisation partner for optimal market access. Diurnal is also seeking to maximise the value of its products outside of its key territories of Europe and the US, as exemplified by a recent deal with Medison to market its two lead products in Israel.

## SIGNIFICANT VALUE INFLECTION POINTS IN 2017 AND BEYOND

Diurnal's lead product, Infacort, is currently under regulatory review by the European Medicines Agency, having successfully completed a European registration study in July 2016, and is on track for anticipated approval in late 2017. The company's second product, Chronocort, is currently in Phase III clinical development in Europe, with results from this study expected in 2018 and anticipated approval in 2019. With Infacort, Diurnal is now poised for transition from pure development to a commercial business, with first revenues anticipated in 2018.

Infacort and Chronocort target diseases resulting from deficiency of the essential hormone cortisol. Infacort is a patented, immediate-release preparation of hydrocortisone specifically designed to address paediatric patients with adrenal insufficiency (AI), a condition of high unmet medical need. Currently there are no licensed hydrocortisone preparations in Europe specifically designed to treat these young patients. These children are often administered compounded adult tablets or other unlicensed products. Poor control of disease can result in precocious puberty in young children, virilisation in girls and chronic fatigue leading to a poor quality of life in adulthood resulting in increased morbidity and mortality.

The proprietary formulation underlying Chronocort provides a drug release profile that Diurnal has designed to mimic the body's natural cortisol circadian rhythm, which current therapy is unable to replicate, and is designed to improve disease control for adults with congenital adrenal hyperplasia (CAH). Approximately two thirds of CAH patients are estimated to have poor disease control, leading to elevated androgen levels which in turn can lead to increased mortality, infertility and severe development defects. Sufferers, even if treated, remain at risk of death through an adrenal crisis.

In addition to Europe, the US is expected to be a major territory for Infacort and Chronocort with regulatory approvals anticipated for 2019 and 2021, respectively.

## EXPANSION OF A DE-RISKED PRODUCT PORTFOLIO

Diurnal plans to use its cortisol replacement offering to build a strong platform in under-served diseases of the adrenal gland, with continued product development expected to come from Chronocort line extensions aiming to address additional cortisol deficiency indications. Diurnal also plans to expand into other endocrine disease areas, such as those associated with the thyroid, gonads and pituitary, with the company's earlier-stage pipeline. These product candidates currently include a novel formulation to treat hypothyroidism, a therapy

## SHARES SPOTLIGHT

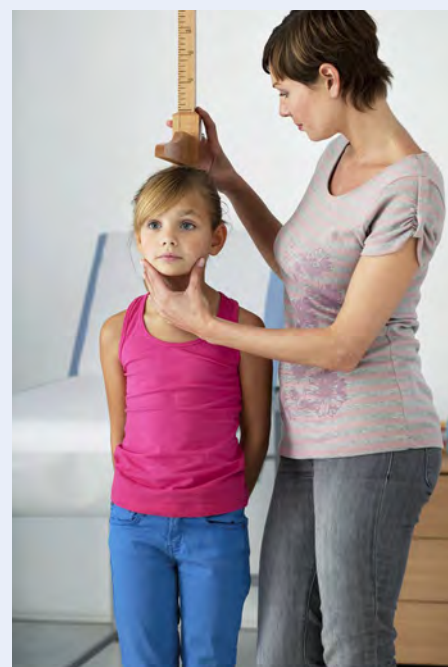
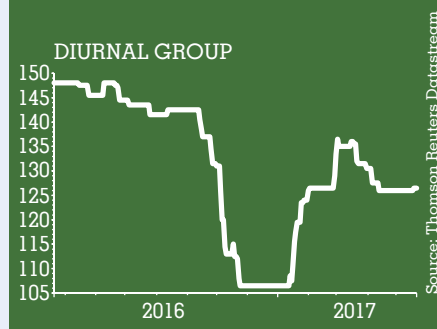


**WEBSITE:**  
[WWW.DIURNAL.CO.UK](http://WWW.DIURNAL.CO.UK)

**SECTOR:**  
PHARMACEUTICALS &  
BIOTECHNOLOGY

**SHARE PRICE:** 126P

**MARKET CAP:** £65.8M



for Cushing's Disease and a native oral testosterone for the treatment of male hypogonadism, which is currently in Phase I clinical development.



# Ergomed's unique business model designed for growth

**T**he development of drugs demands significant amounts of time, specialist expertise and funding. Once a drug candidate has been selected, it then needs to be tested in pre-human studies then healthy patients and finally target patients.

Increasing numbers of drug development companies outsource the management of these studies and Ergomed is a leading provider of such services and also applies its expertise to its own co-development and in-house pipeline.

Founded 20 years ago by Dr Miroslav Reljanovic as a regional contract research organization, today Ergomed operates a hybrid business model across a global platform. The company's strategy combines high growth, profitable pharmaceutical out-source services businesses with an innovative approach to product development which allows investors to participate in the upside potential of drug development with reduced downside risk.

## SERVICES

Ergomed offers pharmaceutical clients a full service out-source offering, from pre-approval clinical testing to post-approval studies as well as drug safety

monitoring and medical information.

Building on 20 years of experience, with more than 300 studies in more than 50,000 patients, Ergomed is now managing around 50 studies in 56 countries, specializing in oncology, neurology, immunology and rare diseases. Ergomed's differentiated approach, including its innovative Study Site Management model and the use of Study Physician Teams, result in more efficient

patient recruitment and trial management.

Through its subsidiaries PrimeVigilance and PharmInvent (acquired in November 2016), the company is the leading independent provider of out-source drug safety monitoring services, also known as pharmacovigilance, providing these services for more than 100 products in more than 100 countries for its clients.

Propelled by the global trend to out-sourcing by the

**THE  
COMPANY'S  
STRATEGY  
COMBINES HIGH  
GROWTH, PROFITABLE  
PHARMACEUTICAL  
OUT-SOURCE SERVICES  
BUSINESSES WITH AN  
INNOVATIVE APPROACH  
TO PRODUCT  
DEVELOPMENT**





pharmaceutical industry, Ergomed's services revenue grew by 30% overall to £39.2 million in 2016.

#### PRODUCT DEVELOPMENT

Ergomed has developed an innovative risk-share model for product development, so-called co-development. Within its portfolio of five co-development partnerships, there are two types: in the first, Ergomed receives an interest in future revenues (including milestones and royalties) received by the partner in return for discounted fees for managing the trial; in the second, Ergomed receives equity in the partner company instead of an interest in future revenues.

Ergomed is able to discount its clinical trial management fees by up to 50% because of its efficient trial management processes. Further adding to the investment appeal, the success of a partner's drug can result in a multiple return on Ergomed's investment (or discounted fees) whilst the impact of a failure of its

partner's drugs is minimal.

Ergomed reviews more than 100 co-development candidates per annum with the objective of signing two partnerships per annum. One such review, because of the pre-clinical and clinical evidence, risk profile, development cost and speed to market, compelled Ergomed to acquire 100% of Haemostatix, a UK biotech. Haemostatix is focused on the development of proprietary products for the treatment of surgical bleeding, a \$2.5bn global market.

A proof of concept study for the first product, PeproStat, is already underway with a target market launch in 2020. The second product, ReadyFlow is one to two years behind in the development process. The combined peak annual sales for the two products is estimated at \$500m per annum. While its co-development partnerships offer upside for investors, Haemostatix being wholly owned offers true break-out potential.

## ERGOMED

#### WEBSITE:

WWW.ERGOMEDPLC.COM

#### SECTOR:

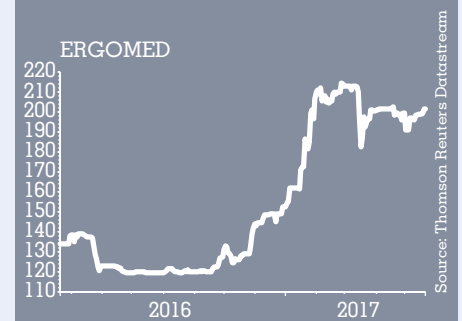
PHARMACEUTICALS & BIOTECHNOLOGY

#### SHARE PRICE:

201.5P

#### MARKET CAP:

£81M



#### GROWTH DRIVERS

Ergomed is fortunate to have three avenues for growth; organic, acquisition and partnerships. Services revenues in 2016 grew 27% organically, materially outpacing market growth, a trend that looks set to continue. Ergomed also intends to use its public profile to acquire complementary services businesses which add either geographic coverage, specialist skills or both. In 2016, the company acquired three services businesses and partnered with Asarina AB for the co-development of sepranolone, a first in class treatment for premenstrual dysphoric disorder with in-market sales potential of \$500m. Ergomed management is focused on exploiting all three growth drivers in 2017 and beyond.

# Healthperm on a medical mission

**H**healthperm (HPR:NEX) is a healthcare recruitment business, which has been established to address the significant shortfalls in healthcare professionals in the UK and the UAE.

Its goal is to become a trusted provider of permanent experienced nurses and other healthcare professionals initially from the Philippines into the UK and the Gulf Co-operation Council (GCC) countries.

## CLEAR NEED FOR HEALTHCARE PROFESSIONALS

The founders started this business in the knowledge the NHS is chronically short of nurses and cannot meet their full-time head count requirements from the UK market alone.

Hospitals have to use locum-agencies to fill their short-term headcount needs – which while effective is very expensive for the NHS.

Healthperm also recognizes that international nurses aspire to work in UK's national health service.

It essentially has two customers – the hospital and the candidate. Both are important to Healthperm.

The business is modelled to span the NHS and the private healthcare sectors in the UK

and the GCC.

## OPERATING INTERNATIONALLY BUT THINKING LOCALLY

The Healthperm business model has five steps:

- Win mandates from hospitals
- Find good candidates from the Philippines and other international locations
- Manage the interview process with or for the hospital
- Help the candidate and the hospital with the on-boarding procedures and administration of coming to the UK or GCC.
- Help the candidates

settle into their new work environment.

Each of these steps takes time. Healthperm is a people business.

Hospitals have their quality procedures and their recruitment teams are generally over worked and understaffed.

The company helps the hospital recruitment teams by managing the interview sessions with or for them as well as managing the candidate's administration from interview to arriving in the hospital for their first day





of work.

Its candidates have usually never been to the UK before and need help and advice on coming here. The on-boarding administration can take up to nine months from initial interview so Healthperm work closely with the candidates to help them through the admin.

When the candidates arrive in the UK, the company meets them at the airport, helps arrange their first month's accommodation, works with the NHS Trust on induction and introduction to the local community and also supplies the candidates with a food parcel for their first few days.

The company says this 'pastoral care' approach is important to it.

### RECRUITMENT OFFICES

Unlike many other recruitment agencies in the healthcare space, Healthperm has its own recruitment subsidiaries in both the Philippines and also in Dubai. The teams in these offices recruit candidates for roles in the UK and in the GCC.

When setting up the business the company immediately realised that to win trust and confidence from the candidates, it had to have its own dedicated recruitment people in-country attracting and managing the candidates through the recruitment journey.

Having the recruitment teams in the local countries is a unique point-of-difference when working with NHS hospitals on their recruitment programs.

The company's local teams



perform several very important roles:

- Screen interview candidates
- Standardize and conforming the CVs so that they comply with UK legislation
- Manage the interview process – usually by skype or also face-to-face sessions
- Administering any knowledge-tests required by the hospitals
- Manage the candidate through the visa and onboarding process
- Help the candidates complete their pre-departure qualifications – IELTS, CBT, etc

### VISA SPONSORSHIP AND LANGUAGE TESTS

For the candidate to be granted an employment

## SHARES SPOTLIGHT



#### WEBSITE:

WWW.HEALTHPERM.COM

#### SECTOR:

SUPPORT  
SERVICES

#### SHARE PRICE:

260P

#### MARKET CAP:

£20.3M

visa from their NHS Trust they need to first pass the International English Language Test (IELTs) in their local country before coming to the UK. The test is a requirement for the UK visa application and shows a candidate's commitment to the recruitment process.

Healthperm realised in 2016 that candidates with the IELTS qualification are serious about coming to the UK and are unlikely to drop-out of the on-boarding cycle.

Accordingly in the fourth quarter of 2016 the company revised its business model so that it now only interviews candidates that have already passed the IELTS.

This pivot increases the quality of candidates being interviewed by UK hospitals and reduces the on-boarding time for such candidates. This change has been well received by existing NHS clients as well as by prospectives.

### LAUNCHING AN INTERNAL COURSE

With the importance of the IELTS qualification to its business model,

Healthperm recently opened its own dedicated IELTS training center in the UAE, 'Healthperm Training Center FZ-LLC', which will focus on international nurses, including those from the Philippines, currently working in GCC states but who have an intention to move to the United Kingdom.

According to the company Healthperm is the only nurse recruitment company with this offering in the United Arab Emirates.

In Manila it runs its in-house 'IELTS 911' courses for strong candidates that have marginally failed their last IELTS exam.

Healthperm continues to partner with IELTS centers in the Philippines, but has no current plans to open its own teaching centres.

#### APPLYING TECHNOLOGY

Healthperm is a global business. For scale and control it adopted cloud based systems from the start.

It uses JobAdder ([www.jobadder.com](http://www.jobadder.com)) for all of

its client and candidate processing and management systems. Though JobAdder teams in all offices can access candidate data in real time and have an audit trail of all communication with the candidates and the hospitals.

Using JobAdder the recruitment managers at the NHS hospital can (1) review all candidate details; (2) select a shortlist; and (3) communicate with the Healthperm team securely and without paper. Interviews are run via Skype.

#### RECENT NEWS

A number of hospitals are already signed up with Healthperm.

It recently won two new UK mandates with an initial combined flow rate of ten candidates per month and are at an advanced stage in respect of three further UK mandates which would increase the monthly interview rate by an additional 30 candidates

per month.

The company encourages the hospitals to have a regular monthly flow-rate of interviews, but also recently completed a 'mass interview' session with Nottingham Hospital in the Philippines with a 98% interview success rate. It will look to take more interview teams to the Philippines for mass interviews in the near future.

It recently commenced working with partners in the Middle East resulting in the placing of over 20 candidates in Gulf Cooperation Council (GCC) private healthcare facilities.

It has had two groups of recruits arrive in the UK and start work. The next set of recruits are scheduled to arrive this month with more to follow.

#### ENJOYING MAKING A DIFFERENCE

The company says: 'We enjoy making a difference, in both helping the NHS recruit great nurses and also by helping great nurses progress their careers.'

'Everyone at Healthperm is passionate about the business. Yes, sometimes it is stressful working across different timezones and trying to work out "why did the skype drop off" in the middle of the interview session, but we all pull together.'

'We are confident about the future and look forward to announcing more mandates, recruiting more candidates, growing the business and delivering shareholder value.'





# Safestay is a premium hostel operator

**S**afestay (SSTY:AIM) is one of the leading operators in the luxury hostel market providing guests with a radically new experience of staying the night in a hostel. Each Safestay hostel is designed to maintain an individual sense of style and character that combined with a consistently high standard of service sets Safestay apart.

Safestay hotels pitch themselves as being comfortable and fun to stay in whilst still offering incredible value for money when compared to traditional alternatives.

## SUSTAINED SUCCESS

Safestay has sustained success since its first hostel in London's Elephant & Castle and AIM listing in 2014. Since then it acquired York later in 2014 (opening in January 2015) and Edinburgh and London Kensington Holland Park in 2015. It recently acquired two properties in Madrid and is redeveloping a site in Paris for opening in 2019.

The group enjoyed uninterrupted trading in 2016. Revenue has grown from £1.9m in 2014 to £4m in 2015 and £7.4m in 2016 transforming the business at the same time with the following operational and financial improvements:



- Investment in competitive digital assets and property management system, improving our digital presence.

- Key board appointments of Mark Beveridge as FD and Nuno Sacramento as COO and the appointment of a second NED.

- Increasingly focussed revenue management and fostering strategic relationships with key suppliers of volume business.

- Focus on the cost base to improve margins and operational effectiveness.

- Refinancing its borrowings with a new five year £18.4m secured bank facility with HSBC which enables it to repay all previous borrowings including the two convertible loans and, on

THE  
SAFESTAY  
BUSINESS MODEL  
IS TO DEVELOP AND  
OPERATE A BRAND  
OF CONTEMPORARY  
HOSTELS IN THE UK  
AND KEY STRATEGIC  
CITIES IN  
EUROPE.

doing so, significantly reduce annual interest costs in 2017 and beyond.

- Completed a geared ground rent sale and leaseback agreement on the Edinburgh and Elephant & Castle

hostels raising gross cash proceeds of £12.6m. The group retains a long term operational interest in the properties following the sale and leaseback.

## WHAT IS THE BUSINESS MODEL

The Safestay business model is to develop and operate a brand of contemporary hostels in the UK and key strategic cities in Europe. The Safestay brand is positioned at the premium end of the hostel spectrum with the appeal to



a broad range of guests. Core elements of the model are:

- Development - Identifying potential properties in key European cities, acquiring the properties and their contemporary, stylish refurbishment to fit with the brand
- Operational – Providing comfortable, safe and enjoyable stay in our hostels for a reasonable price with a focus on customer satisfaction and repeat stays
- Brand – Building the Safestay brand value
- Scale – Building the platform to efficiently add further hostels to the group at strong operating margins
- People – Investing in the right people where automation cannot be adopted

Traditionally, the hotel sector's performance has tracked macro-economic trends, feeling the strain during the economic downturn and is more buoyant during recovery.

The hostel sector leans more heavily on leisure

travellers and has a lower price point. It has proved more resilient and has delivered more robust cash flows through the economic cycle and has quickly recovered from isolated terror acts which may limit travel in the short term.

Demand in Safestay's markets is projected to strengthen as the hostel continues to challenge the traditional hospitality sector. According to Savills (European Tourist Hostel Report 2016), hostel bed stock per 1,000 visitors in the 16 to 34 years demographic in London and Paris are at 2.8 and 1.4 respectively, both cities attracting large numbers of overseas visitors. In London, there are 7.6 hotel rooms per 1,000 visitors averaging 82% occupancy, demonstrating a significant opportunity for growth with our core market of young travellers and increasingly with families and older adults who are recognising its appeal combined with affordability.



## SHARES SPOTLIGHT



**WEBSITE:**  
WWW.SAFESTAY.COM/  
INVESTORS

**SECTOR:** TRAVEL & LEISURE

**SHARE PRICE:** 51P

**MARKET CAP:** £17.5M



### KEY ADVANTAGES

Safestay also has advantages over the traditional hotel sector in accessing expansion opportunities at the right price and in the right locations. The dormitory-style accommodation enables Safestay to develop in all styles of building at reasonable cost per bed (the Kensington Holland Park was converted in 2015 at a cost of £8,250 per bed).

Continued delivery of its aims and operational success alongside the debt restructuring and sale and leaseback transaction means the group is now well placed to achieve its future expansion plans, with the expectation to further expand into mainland Europe as part of the growth strategy.

# Building the case for St Mark

**S**t Mark Homes (SMAP:NEX) is a residential and mixed use property developer involved in developments in London and South East of the UK.

The company initially started life as a construction company in 1999 raising money through an 'Enterprise Investment Scheme' before moving into mainstream property development in 2008.

'Typically we take joint venture positions in residential led property developments with established developers' says Barry Tansey, CEO. It allows us to spread our investment capital over several projects rather than 'putting all our eggs in one basket as it were' says Tansey. The company has delivered a pretty decent return for the benefit of its shareholders in recent times and this has been recognised by the market with the share price rising from 35p to a recent high of 110p.

The share price has slipped back a little to 90p recently which Tansey sees as a short term reaction to market concerns over Brexit rather than anything more specific to St Mark given the projects it is involved in and its robust development pipeline for the



coming two to three years. The company share price trades at a significant 27.5% discount to net asset value and pays a regular dividend and based upon its current share price of 95p provides an attractive 5.26% dividend

yield. EPS for the year ended 31 December 2016 amounted to 16.6p per share (up from 14.83p a year before).

## MID-TIER FOCUS

The company is very much focused on the mid-tier residential market which has been quite resilient in recent times despite the changing tax environment and ongoing uncertainty over Brexit. The company is currently involved in four live projects located in

Richmond, Sutton, Clapham & Hounslow all of which are well underway.

St Mark will continue to target schemes which provides new homes within



**WE ARE VERY MUCH A PROFIT FOCUSED ENTITY NOT INTERESTED IN VANITY OF CHASING TURNOVER – WE WANT TO DELIVER REAL VALUE FOR OUR SHAREHOLDERS.**





the £600,000 Government's Help to Buy limit – designed by central Government to improve home ownership which are limited to new builds. This market remains vibrant and currently accounts for about 65/ 70% of the company's stock range.

'The company is very disciplined and thorough in appraising projects choosing only to deploy its capital in

development projects where the business case is strong and which offers our shareholders a realistic prospect for profit' says Sean Ryan, FD and a twenty-five-year veteran of the construction and property development industry. 'We are very much a profit focused entity not interested in the vanity of chasing turnover – we want to deliver real value for our shareholders.'



### WEBSITE:

[WWW.STMARKHOMES.COM](http://WWW.STMARKHOMES.COM)

### SECTOR:

CONSTRUCTION & MATERIALS

### SHARE PRICE:

95P

### MARKET CAP:

£4.2M

### CORPORATE ACTIVITY

The company acquired St Mark Contracts Limited in mid 2016 in an all share deal and also had a successful share offer from existing shareholders during the third quarter of 2016 which raised just over the £716,000 to assist in funding new project investments.

'We have big plans for the company and look forward to the challenge ahead' says Tansey. The company balance sheet currently stands at £5.8m and there are aspirations to grow this to £10m in the coming years.



# StatPro keeps it simple

**I**nvestment portfolio analytics business **StatPro (SOG:AIM)** believes software should be simple. Simple to implement, simple to operate and simple for its clients to achieve their business goals.

This drive to 'Make it Simple' hides the underlying sophistication of the company's flagship product, StatPro Revolution. This cloud-based portfolio analytics platform helps asset managers and fund managers across the global investment industry analyse the performance and risk of their investments with a huge variety of visual analysis.

## TALKIN' BOUT A REVOLUTION

It comes complete with industry leading data management and analytical models for all asset types. It also includes features such as stress-testing, reporting, the web API data extraction, regulatory compliance analysis and includes market data coverage, benchmarks and index data.

On 7 April 2017 StatPro announced the acquisition of UBS Delta, an award-winning risk and performance service offered by UBS (Union Bank of Switzerland). The combination of UBS Delta with StatPro Revolution will result in one of the most comprehensive portfolio analytics platforms on the market.

StatPro Revolution already offers a broad range of performance and risk services, but it is largely focused on the middle office of asset managers, providing reporting, monitoring and sales support. On the other hand, UBS Delta has grown

out of the front office needs of asset managers, supplying decision support and highly accurate risk analysis, especially for fixed income assets.

As UBS Delta, like StatPro Revolution, is a multi-tenant solution, there is just one installation of each system. This makes the migration of clients from UBS Delta to StatPro Revolution relatively straightforward. The biggest issue for any client is providing their data to a given platform.

Because of its commonalities, the company will be able to reuse the files the clients currently supply to UBS Delta for StatPro Revolution. Indeed, during the transition phase, clients of UBS Delta will be able to start using StatPro Revolution, if they wish, without having to rewrite anything.

The company can take the input files and add them to StatPro Revolution as they are. One day, when the company are ready to start migrations, the clients will log in and



instead of being on the UBS Delta website, they will be on the StatPro Revolution website.

StatPro Revolution has been built with the future needs of asset managers in mind. For a start, everyone always wants everything to be done faster. Then as asset managers merge and merge again they are also developing huge scale, so they need a service, which has the scale to handle their data volumes. Greater precision is essential as a combination of increased regulation and more demanding clients push the boundaries of the calculations required. So, the challenge for a service provider like StatPro has been to imagine a platform with the technology to handle this need for speed, scale and precision. The company believes it has met these challenges with StatPro Revolution.

StatPro's vision for the smooth production of analytics is that there are three fundamental parts to the process and each can

be managed separately. The first is to check the input data to ensure accuracy and completeness.

Data checking is the bane of performance measurers around the world. Getting data right is incredibly complicated because of the sheer volumes of information. StatPro Revolution has hundreds of configurable data controls and scalable computing power to automate this process in a way that has never been possible before.

## GETTING THE DATA RIGHT

Once you have your data right, the next step is to produce as many types of calculations as you want to satisfy everyone's needs. That might be simple performance measurement, elaborate attribution analysis or complex ex-ante risk. There are always more analytics that asset managers want to produce.

Finally, each user needs information presented in a way that is useful for them. A fund manager analysing the portfolio has different needs to someone monitoring risk across many portfolios or producing client reports or complying with a new regulation. Thus, the flexibility of the interface and web APIs are essential.

StatPro believes the market is trending to a situation where asset managers will increasingly want to outsource their data management processes to fund administrators. The fund administrators will then supply clean data back to their asset manager clients who will then perform whatever analysis they need with this cleaned data. Fund administrators will also offer more and more services to produce anything that is standardised like regulatory reporting or even client

## SHARES SPOTLIGHT

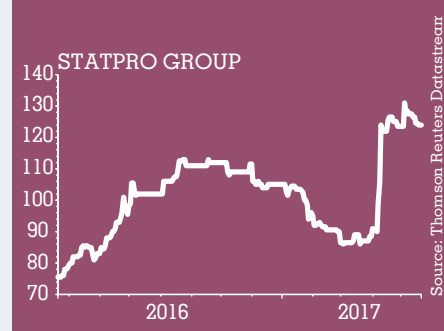


**WEBSITE:**  
WWW.STATPRO.COM

**SECTOR:** SOFTWARE & COMPUTER SERVICES

**SHARE PRICE:** 127.5P

**MARKET CAP:** £84.8M

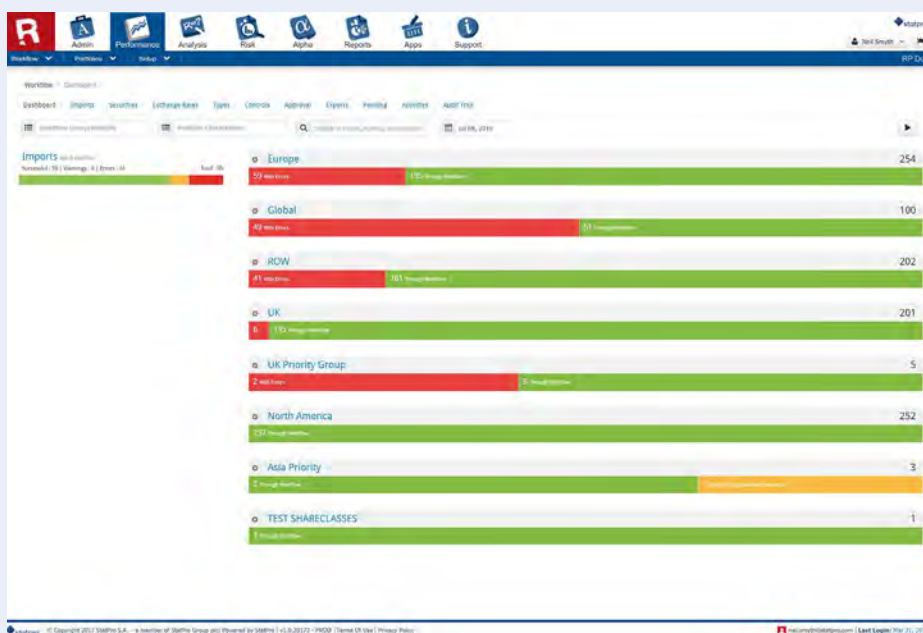


reporting.

The reason why fund administrators have not taken a bigger market share already is simply because the systems they currently use hinder them from offering the service they would like to provide. They lack flexibility, responsiveness and sophistication. The result is that some asset managers have taken back in-house outsourced performance and risk processes.

## THE PERFECT INFRASTRUCTURE

According to the company StatPro Revolution offers the perfect infrastructure for fund administrators to provide an improved service and adding UBS Delta capabilities should make it better. The company has several fund



administration clients that are using StatPro Revolution to manage the data cleaning part of the process. Their clients then use Revolution's web interface to access the analytics they want.

Data management benefits from economies of scale, so the more asset managers that are on a fund administrator's platform the better. On the other hand, analysis is often very personal. Each fund manager might want to assess the analytics in their own way. This need for uniqueness requires flexibility, which Revolution has.

A major cause of inefficiency with any asset manager is multiple calculations of performance for the same portfolio by different systems. However, because most systems have been created over the years to be self-sufficient, they each duplicate each other. Older systems tend to be poor at sharing information so the only way for data to be extracted is via a basic report. This is a very inefficient method of communicating between systems, which is prone to error and hard to control. It also results in the proliferation of multiple sources for the same data.

#### THE ROLE OF WEB APIS

The way forward is to use web APIs (Application Programming Interface). This allows one application to ask the other application for specific data that is needed

## 'THE COMPANY'S FUND ADMINISTRATOR CLIENT HAS SAVED A HUGE AMOUNT OF WORK BY JUST MAKING A SIMPLE API REQUEST.'

as and when it wants it. The company has a successful tie up with a fund administrator that supplies a risk solution but which does not offer performance. They use its web API in Revolution to get performance results. They then display these results in their interface. From the perspective of the client, they see just one system that now combines risk and performance. The fund administrator client has saved a huge amount of work by just making a simple API request.

Most asset managers, especially the larger ones, require this same efficiency. For instance, every asset manager needs to build a website and ensure that it can have up to date performance and risk data. However, most asset managers have torturous processes to achieve this with the result that data on their websites is usually stale and of limited use. If they could control all their portfolios on one system and then use a web API to distribute this information wherever they wanted to send it, they would solve the problem of data control and hugely improve their efficiency.

No platform will ever provide everything, but by

being open with web API, StatPro doesn't have to.

However, the company does aim to provide as much as it possibly can. This is where its acquisition of UBS Delta fits in, as does its acquisition last year of Investor Analytics.

Each of these services does something special and unique. Each required their clients to feed the service with their data. By combining all these services, the company is offering clients far more value and greater convenience. By integrating these other services into its technology, the company will also make it easier for clients to access and integrate output with their own infrastructure via the web API.

StatPro says: 'We have been on a long journey to completely reinvent all of our technology so that we can offer our clients all our savoir faire in the most convenient way possible. We believe that we have now largely completed that journey of transformation, but the next stage is to expand the range of services we offer so that our clients can make their businesses even more efficient. The world does not stand still and the Revolution will continue.'