Parkmead Group

8 August 2016

Initiation: History repeating itself

BUY

Parkmead has weathered the downturn in the oil sector better than many of its peers. With a solid balance sheet and limited capex commitments in the short term, it is well positioned to continue with its growth strategy as we move into the upturn in the oil price cycle.

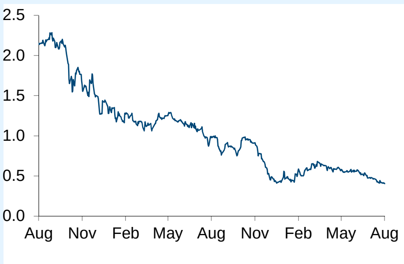
- **Strategy**. In essence, Parkmead's strategic aim is to replicate the success of Dana Petroleum PLC, which was sold by CEO Tom Cross for US$3bn in 2010. To this end, Parkmead has gained mainly operatorship interests in acreage in the North Sea and onshore Netherlands. These interests cover the gamut of discoveries, appraisal opportunities as well as exploration prospects.
- **Netherlands gas.** The core gas production business has seen production ramping up in recent years. With the Groningen gas field being forced into decline, there is a substantial opportunity for Parkmead to replace this production not only in the Netherlands, but also into the wider European gas market.
- **North Sea hubs.** Parkmead's strategy is to develop infrastructure hubs in order to cost effectively bring onstream multiple assets via shared facilities. This is a proven strategy; it was used by Dana Petroleum and Venture Production, and was one of the key drivers for both companies eventually being acquired. In these capex sensitive times in a mature operating environment, this approach will be crucial to extending the productive life of the UK North Sea.
- **Valuation.** We have based our core valuation on the Netherlands production business, cash position and equity investment in Faroe Petroleum which yields a value of c80p per share. Our RENAV of the rest of the portfolio has the ability to add a further 190p on a risked basis. In terms of our model, the company is trading at cash with no recognition of the value of the Netherlands gas business. We therefore initiate coverage with a **Buy** recommendation and set a target price of **80p**.

Year ending July (£m)	2014A	2015A	2016E	2017E
Data				
Sales (£m)	24.7	18.6	16.3	19.6
Adj EBITDA (£m)	2.1	-32.7	-1.0	2.3
Adj PBT (£m)	1.0	-30.8	-0.3	3.5
Tax rate (%)	nm	nm	nm	3
Adj EPS (FD) (p)	1.6	-35.2	-0.4	3.5
DPS (p)	0.0	1.0	2.0	3.0
Ratios				
EV/Sales (x)	0.0	-0.1	-0.1	-0.1
EV/EBITDA (x)	n/a	0.0	1.2	n/a
P/E (x)	24.9	n/a	n/a	11.6
Yield (%)	0.0	2.5	5.0	7.4
Cash flow yield (%)	1.0	-83.2	4.5	16.6
EPS growth (%)	n/a	-2,274.1	98.9	987.8

Ticker	PMG
Price	40.4p
Target Price	80.0p
Upside	98.0%
Market Cap	£39.9m
Index	FTSE AIM All Share
Sector	Oil & Gas
Net Cash	£41.1m
Shares in Issue	98.9m
Next Results	November - prelims

What's changed	From	To
Adj. EPS (FD)		-0.4p
Recommendation		Buy
Target Price		80.0p

Share Price Performance



Source: Thomson Reuters

%	1M	3M	12M
Actual	-14.1	-28.5	-59.0
Relative	-19.1	-35.0	-60.1

Company Description
independent oil and gas, exploration and production company.

Analyst:
Dougie Youngson

Sales:
Rhys Williams
Christian Hobart
Stephen Joseph
Tony Quirke
Malar Velaigam

Sales Traders:
STX

Key Financials

Income Statement

Year ending July (£m)	2014A	2015A	2016E	2017E
Sales	**24.7**	**18.6**	**16.3**	**19.6**
Gross profit	**3.2**	**-33.7**	**1.3**	**4.6**
Operating expenses	-1.2	1.0	-2.3	-2.3
Adjusted EBITDA	**2.1**	**-32.7**	**-1.0**	**2.3**
Depreciation/Amortisation	0.0	0.0	0.0	0.0
Adjusted EBIT	**2.1**	**-32.7**	**-1.0**	**2.3**
Associates/Other	0.0	0.0	0.0	0.0
Net interest	-1.0	1.9	0.7	1.2
Adjusted PBT	**1.0**	**-30.8**	**-0.3**	**3.5**
Adjustments	0.0	0.0	0.0	0.0
Reported PBT	**1.0**	**-30.8**	**-0.3**	**3.5**
Taxation	0.2	-0.5	-0.1	-0.1
Tax rate (%)	*nm*	*nm*	*nm*	*3*
Reported earnings	1.2	-31.4	-0.4	3.4
Average no.shares (FD)	76.2	89.0	98.9	98.9
Adj. EPS (FD) (p)	**1.6**	**-35.2**	**-0.4**	**3.5**
DPS (p)	**0.0**	**1.0**	**2.0**	**3.0**

Cash Flow

Year ending July (£m)	2014A	2015A	2016E	2017E
EBITDA	**2.1**	**-32.7**	**-1.0**	**2.3**
Net change in working capital	0.0	0.0	0.0	0.0
Other items	0.0	0.0	0.0	0.0
Operating cash flow	**2.1**	**-32.7**	**-1.0**	**2.3**
Cash interest	-1.4	-1.1	0.9	1.4
Tax paid	-0.3	-0.5	-0.1	-0.1
Capex	0.0	1.0	2.0	3.0
Free cash flow	**0.4**	**-33.2**	**1.8**	**6.6**
Disposals	0.0	1.0	2.0	3.0
Acquisitions	-8.8	-12.6	-3.7	-0.9
Dividends	0.0	1.0	2.0	3.0
Other	-3.0	-2.1	0.0	0.0
Issue of share capital/(Buyback)	39.5	13.0	0.0	0.0
Net Change in cash flow	**28.1**	**-32.9**	**2.2**	**11.8**
Opening net (debt)/cash	13.3	46.3	41.1	43.5
Closing net (debt)/cash	**46.3**	**41.1**	**43.5**	**54.6**

Balance Sheet

Year ending July (£m)	2014A	2015A	2016E	2017E
Tangible assets	30.1	18.9	22.4	23.2
Goodwill	2.2	2.2	2.2	2.2
Other intangible	37.3	37.2	36.9	36.9
Other	0.0	0.0	0.0	0.0
Non current assets	**69.5**	**58.2**	**61.6**	**62.3**
Inventories	0.0	0.0	0.0	0.0
Trade receivables	11.6	6.0	5.0	5.0
Cash	46.3	41.1	43.5	54.6
Other	0.0	0.2	0.0	0.0
Current assets	**57.9**	**47.3**	**48.5**	**59.6**
Trade payables	-8.0	-14.6	-19.5	-27.9
Other current liabilities	-0.5	0.0	0.0	0.0
Short term debt	-2.1	-0.4	-0.4	-0.4
Net current assets	**47.4**	**32.3**	**28.6**	**31.3**
Long term debt	-4.2	0.0	0.0	0.0
Pension	0.0	0.0	0.0	0.0
Other/Minorities	-13.0	-10.0	-10.0	-10.0
Net assets	**99.7**	**80.5**	**80.1**	**83.5**
Net working capital	*3.6*	*-8.7*	*-14.5*	*-22.9*
NAV per share (p)	*130.8*	*90.4*	*80.9*	*84.4*
NTA per share (p)	*79.1*	*46.2*	*41.4*	*44.9*

Ratio Analysis

Year ending July	2014A	2015A	2016E	2017E
Growth				
Revenue growth (%)	n/a	-24.4	-12.6	20.0
EBITDA growth (%)	n/a	-1,689.6	97.1	340.0
EPS growth (%)	n/a	-2,274.1	98.9	987.8
DPS growth (%)	n/a	n/a	100.0	50.0
Returns				
Gross margin (%)	13.1	n/a	7.9	23.3
EBITDA margin (%)	8.3	n/a	n/a	11.8
EBIT margin (%)	8.3	n/a	n/a	11.8
RoE (%)	1.2	n/a	n/a	4.1
RoCE (%)	1.8	n/a	n/a	2.5
Liquidity				
Net debt/equity (%)	n/a	n/a	n/a	n/a
Net debt/EBITDA (x)	n/a	1.3	45.3	n/a
Interest cover (x)	2.0	nm	nm	nm
Net working capital to sales (%)	14.5	-46.4	-89.0	-117.1
Cash conversion (%)	18.5	101.6	-188.8	287.8
Dividend cover (x)	n/a	-35.2	-0.2	1.2

Valuation

We have valued PMG on a DCF basis for its core production business in the Netherlands. We have also included a RENAV in our upside valuation for the company's potential developments as well as early-stage appraisal and exploration assets.

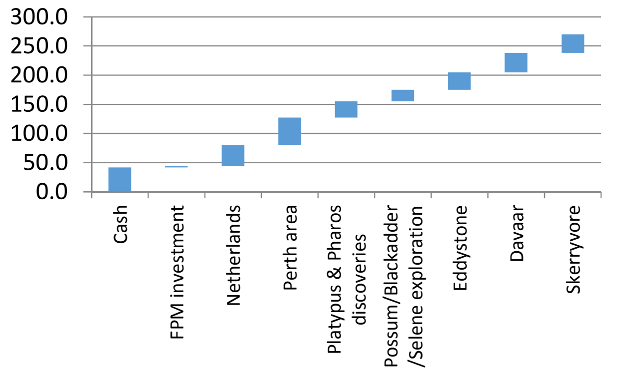
Outside the Netherlands core production base, the development projects (eg Perth, Platypus etc) in the portfolio do not yet have FDP approval. As these milestones are met and a timetable becomes apparent for development and first production, then these assets will become part of our core valuation.

Sum-of-the-parts

	£m	p/share
Netherlands	35.4	35.8
Cash	41.1	41.6
FPM investment	2.8	2.9
Core value	**79.3**	**80.2**
Perth area	46.7	47.2
Platypus & Pharos discoveries	27.3	27.6
Possum/Blackadder/Selene exploration	19.6	19.9
Eddystone	29.7	30.0
Davaar	33.1	33.4
Skerryvore	31.3	31.7
Upside value	**267.1**	**270.0**

Source: Company reports, finnCap estimates

Waterfall chart (p/share)



Source: Company reports, finnCap estimates

Potential share price drivers

We highlight a number of future share price triggers that we feel could have a significant impact on valuation:

- Further investment in the Netherlands portfolio to increase production and reserves
- Gaining FDP approval and funding for the various development projects in the portfolio
- Further acquisitions and potentially divestments of non-core assets

Target price and recommendation

We have based our core valuation on the Netherlands production business, cash position and equity investment in Faroe Petroleum which yields a value of c80p per share. Our RENAV of the rest of the portfolio has the ability to add a further 190p on a risked basis.

We therefore initiate coverage with a **Buy** recommendation and set a target price of **80p**.

RENAV

Country	Status	Name	HC type	Interest	CoS/CoD	Gross Resources (mmboe) Best	Net Resources (mmboe) Best	NPV 10% US$ / boe	Unrisked NPV $m	Risked NPV $m	Net Risked p/share	Net Unrisked p/share
UK	Discovery	Perth	Oil	52.0%	50%	39	20.3	4.10	83.05	41.52	31.80	63.60
UK	Discovery	Perth extension	Oil	52.0%	30%	30.4	15.8	4.10	64.73	19.42	14.87	49.57
UK	Discovery	Platypus	Gas	15.0%	75%	17.3	2.6	5.77	14.96	11.22	8.59	11.46
UK	Discovery	Pharos	Gas	30.8%	50%	27.5	8.5	5.77	48.83	24.41	18.70	37.39
UK	Exploration	Possum	Gas	15.0%	38%	6.6	1.0	4.61	4.57	1.71	1.31	3.50
UK	Exploration	Blackadder	Gas	30.8%	17%	29.1	9.0	4.61	41.34	6.90	5.29	31.65
UK	Exploration	Selene	Gas	50.0%	19%	38.9	19.5	4.61	89.70	17.04	13.05	68.69
UK	Exploration	Eddystone	Oil	43.0%	9%	166	71.4	6.04	431.14	38.80	29.71	330.15
UK	Exploration	Davaar	Oil	30.0%	15%	159	47.7	6.04	287.99	43.20	33.08	220.53
UK	Exploration	Skerryvore	Oil	30.5%	30%	64.9	19.8	6.89	136.43	40.93	31.34	104.48
UK	Exploration	Sanda	Oil	56.0%	0%	125.4	70.2	0.00	0.00	0.00	0.00	0.00
UK	Discovery	Polecat & Marten	Oil	50.0%	0%	33.6	16.8	0.00	0.00	0.00	0.00	0.00
UK	Exploration	Perth West	Oil	52.0%	0%	9.2	4.8	0.00	0.00	0.00	0.00	0.00
Netherlands	Exploration	Geesburg	Gas	15.0%	75%	1.7	0.3	4.00	1.02	0.77	0.59	0.78
Netherlands	Discovery	Papekop	Oil & Gas	15.0%	50%	3.6	0.5	11.85	6.40	3.20	2.45	4.90
						752.2	308.0	0.00	1210.15	249.13	190.78	926.71

Source: Company data, finnCap estimates

Strategy review

Parkmead's CEO Tom Cross founded Dana Petroleum in 1994 to develop opportunities in the North Sea. Through several acquisitions, the company expanded into Egypt and Morocco and had 2P reserves of 278mmbbl and was producing from 63 fields across the portfolio. In 2010, the company was acquired by KNOC for cUS$3bn and exists today as an unlisted company under KNOC.

Even prior to the downturn in the oil price, Parkmead has focused on building and acquiring interests in value-accretive projects in the UKCS and the Netherlands. This strategy has not changed post downturn, and indeed the downturn may actually afford Parkmead with a wider range of acquisition opportunities, not only in its current areas of activity, but also further afield.

As a result of the downturn in the oil price there are a great number of assets and companies that are in distressed situations. Given prolonged high oil prices the sector became complacent and as a result the cost base rose in line, leading to a high degree of inefficiency which resulted in fields quickly becoming unprofitable when the oil price declined.

Given the relative ease of access to debt, it is obvious with hindsight that companies became over leveraged. Consequently, as cash flow from the portfolio decreased, repayment of debt became more difficult, covenants were breached and the companies either had to refinance or became distressed, leading to the sale of assets at unfavourable valuations to relieve balance sheet stress.

Parkmead sensibly did not take on debt, has low capital commitments (which are currently almost entirely discretionary) and raised £40m in January 2014 before the equity markets essentially closed to junior companies.

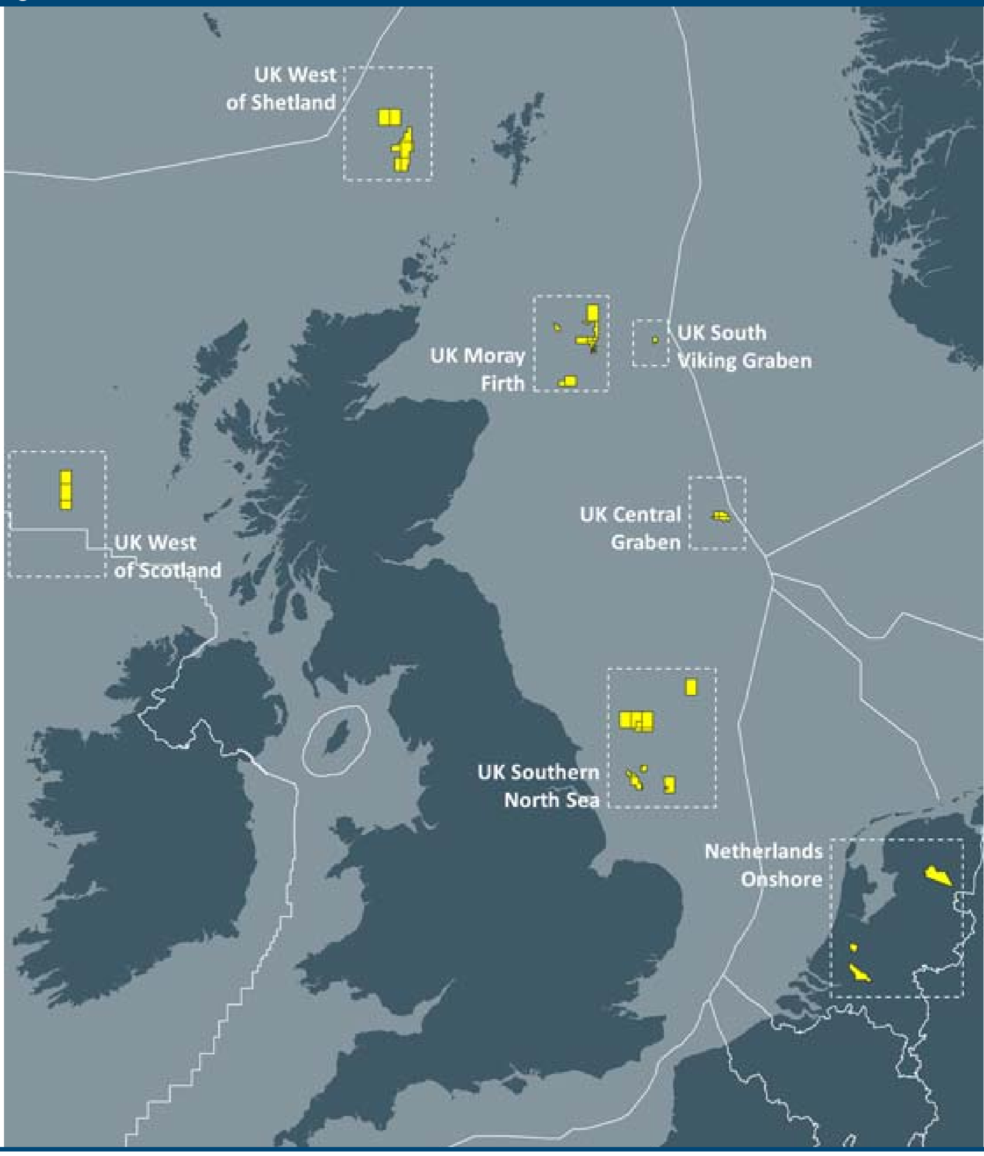
As a result, Parkmead is cash rich and commitment light, meaning that it is in a strong position to take advantage of the prevailing market situation and pursue value-accretive opportunities: an enviable position for an aspirational junior oil company in a difficult market.

Asset overview

Parkmead currently has 48 licences in the UK and the Netherlands and is currently producing from four onshore gas fields in the Netherlands. The company had been producing from the Athena field, but due to low oil prices this field is currently shut-in and the FPSO has been removed from the location.

The company's portfolio benefits from a wide range of assets of varying maturity and value proposition. Given Parkmead's strategy and its focus on production and near-term development, we will detail these parts of the portfolio.

Parkmead acreage

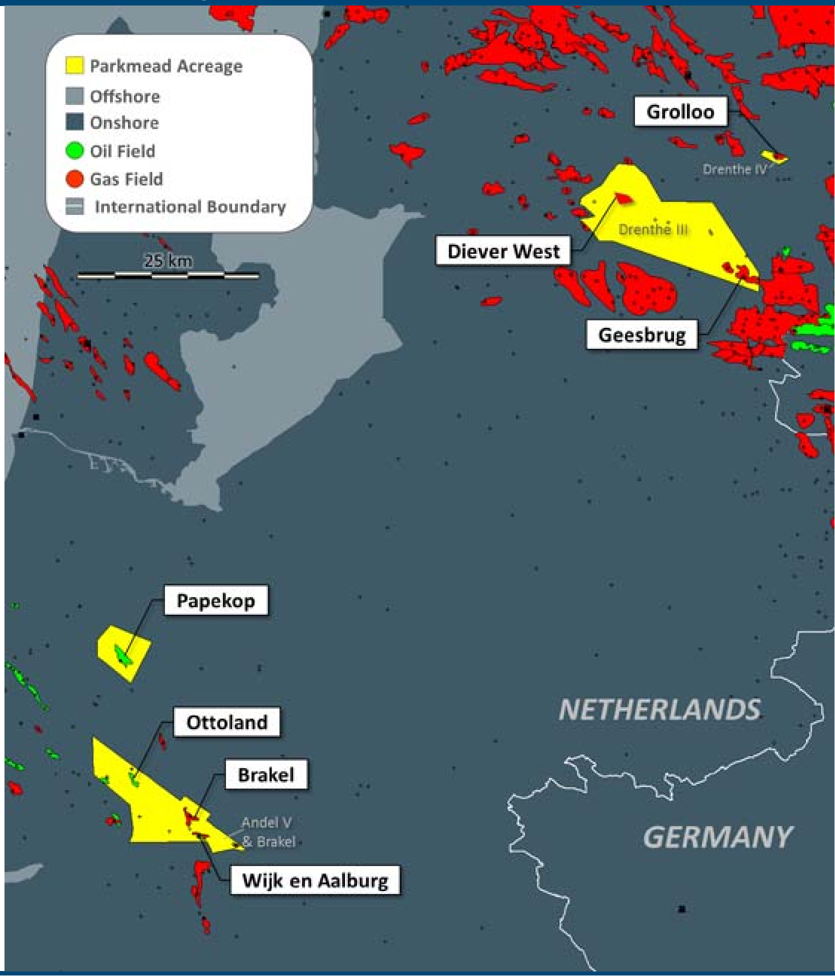


Source: Company data

Netherlands

The Netherlands is Parkmead's core production base today. The company is currently producing gas from four onshore fields, but the four licences also hold three potential oil and gas developments and a number of exploration targets.

Netherlands acreage



Source: Company data

The Netherlands gas market

The Netherlands accounts for 25% of the total gas reserves discovered in Europe, the majority of which are located onshore and to a lesser extent offshore in the North Sea. Offshore production peaked in 2001 at 30bcm and is approximately half that value today. Onshore production has been dominated by the Groningen field, which is now in accelerated decline.

The gas market has entered a period of flux due to production from the Groningen gas field being reduced as a result of increasing seismic activity. This field was discovered in 1959 and is the largest gas field in Europe and tenth largest in the world.

Groningen has been the key source of natural gas in the Netherlands for decades. The reduction in production due to seismic activity has increased interest in exploring and developing alternative sources of gas in different parts of the country in order to meet demand, rather than increasing imports of gas.

In 2016, annual production has been set at 27bcm (c50% of what was produced in 2013) in order to meet contractual and safety obligations, but it is thought that production may be reduced further to 18-24bcm. Despite the safety issues with the field, Groningen is a mature field and was expected to cease production at the end of the next decade. Given the field's proximity to Germany, there have also been exports into this market which will need to be replaced, potentially by other fields in the Netherlands or other sources of imports.

The problems at Groningen have accelerated the requirement to replace it. There are two options: potentially expensive imports via pipeline and/or LNG or build domestic production. Realistically, the drop in supply post Groningen will be met by both.

Since the 1970s, 466 small gas fields have been discovered with just 236 brought onstream. These fields account for a third of domestic production at a combined rate of 30bcm and this level of production is expected to be maintained out to 2030. In order to keep at this level there needs to be further investment in exploration and development to find and bring onstream new production as the mature assets decline. The government and industry (and companies such as Parkmead) are looking at exploration, stranded fields, tight gas and shale gas as future sources of domestic gas production.

Onshore production

Parkmead has four onshore gas fields onstream: Brakel, Geesbrug, Grolloo and Diever West. Diever West was discovered in September 2014 and tested at 29mmcfd from a 157ft gas column and subsequently was fast-tracked into production in November 2015. The speed with which the field was brought onstream was due to the declining production at Groningen and the strong domestic demand for gas coupled with a supportive government in terms of permitting. Given the accelerated decline of Groningen, we would expect similar impetus for new gas projects in future.

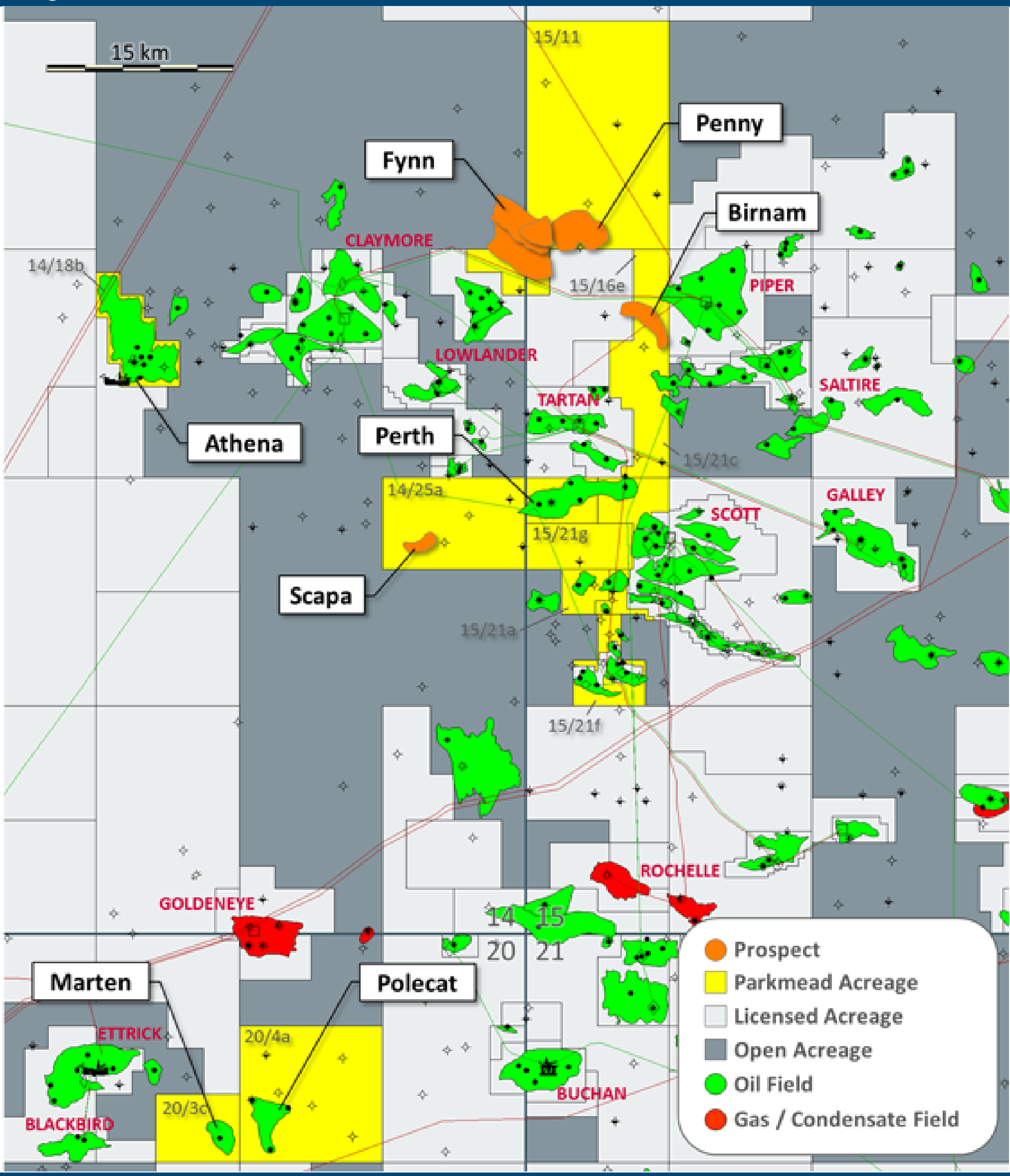
Parkmead has 15% interests in Brakel, Geesbrug, Grolloo and Diever West. All four fields are operated by Vermillion Energy, which is the largest producer of gas in France and a key player in other oil and gas markets across Europe. This core production base in the Netherlands is producing at a combined rate of 5.4mmcfd and is forecast to increase to 11.2mmcfd by 2019. This increase in production will in part be driven by a new low cost infill well at Geesbrug, a planned sidetrack well at Wijk en Aalburg and exploration drilling at De Mussels.

Perth/Dolphin/Lowlander (PDL) proposed development (PMG: 52.03%)

Parkmead has built up a substantial position in the prolific Moray Firth area via strategic acquisitions and licencing. Until early 2016, Parkmead benefitted from production from the Athena field. However, due to low oil prices, this field was no longer economic under its existing export route. The company is now examining the potential joint development of the Perth, Dolphin and Lowlander and Athena fields and potential satellites of the main hub, namely Polecat and Marten.

Additional prospectivity exists in Flynn, Penny and Birnam and in the event of them being discoveries may warrant their phased introduction into the PDL hub which would reduce unit operating costs and increase the profitability of the Greater Perth Area hub.

Moray Firth acreage

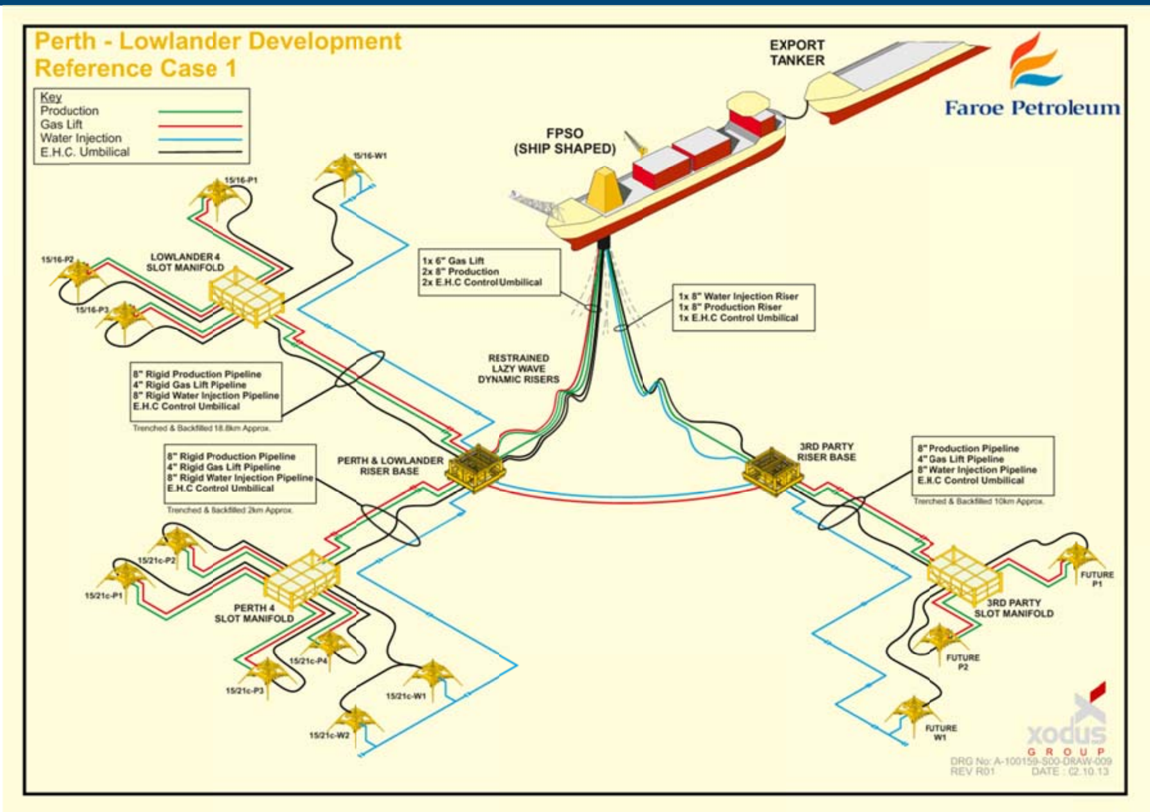


Source: Company data

Hub strategy

The PDL project is one of the largest undeveloped oil projects in the UK North Sea and has seen 13 wells drilled to date. It is estimated that there is 400mmbbl of oil in place, of which 80mmbbl (gross) could be recovered. Following a study of development options in 2014, it was concluded that joint development of the fields would enhance the overall economics versus standalone due to lower capex and opex driven by the ability to reduce infrastructure duplication.

Proposed PDL development plan



Source: Company data

This approach has been used globally and is a proven method of commercialising small fields that would normally not warrant a stand-alone development for economic reasons. The hub model was the strategy adopted by Venture Production in the UK North Sea. Venture 'scavenged' for stranded fields owned by larger companies that had no intention of developing them due to internal competition for capital. Consequently, acquisition costs were low and by taking the hub approach, these stranded fields could be brought onstream.

This strategy is just as applicable today as it was when Venture was using it in the late 1990s. A recent example is Ithaca Energy's hub development at the Greater Stella Area. The company is installing a floating production facility (FPF) which will produce, process and ultimately export oil and gas, initially from the Stella field. The FPF has been 'future proofed' so that other satellite fields can be brought onstream in a highly efficient and cost-effective way once Stella begins to decline.

Perth

The field was discovered in 1983 and was appraised via three wells and two side tracks. These wells during testing flowed at rates from 1,000 to 6,000bbl/d of medium oil (30-32^{o} API) with sour, carbon dioxide rich associated gas. These wells showed that that the reservoir was compartmentalised across five areas and is estimated to have P50 STOIIP of c326mmbbl.

The key milestone for the development of the Perth field is managing sulphur dioxide and carbon dioxide content of the associated gas. There are a variety of options for disposing of sulphur including reinjection, amine scrubbing and flaring, each of which has an associated capex, opex and environmental profile.

There are an estimated 947mmbbl of oil in place within a 30km radius of Perth in what is known as the 'sour crescent', comprising both discovered and yet to be discovered oil fields. Given their proximity and what is a distance suitable for tie-backs, a hub approach based around the development of the Perth field makes a huge amount of economic sense. These fields could be brought onstream with lower levels of capex based on drilling, subsea tie-backs and associated ongoing field opex.

Given the decline in the oil price, the company decided to postpone this project until prices improve. We are of the view that once the oil price reaches a sustainable level that supports the project's economics then development could be reinvigorated, taking advantage of low rig rates and other service company rates.

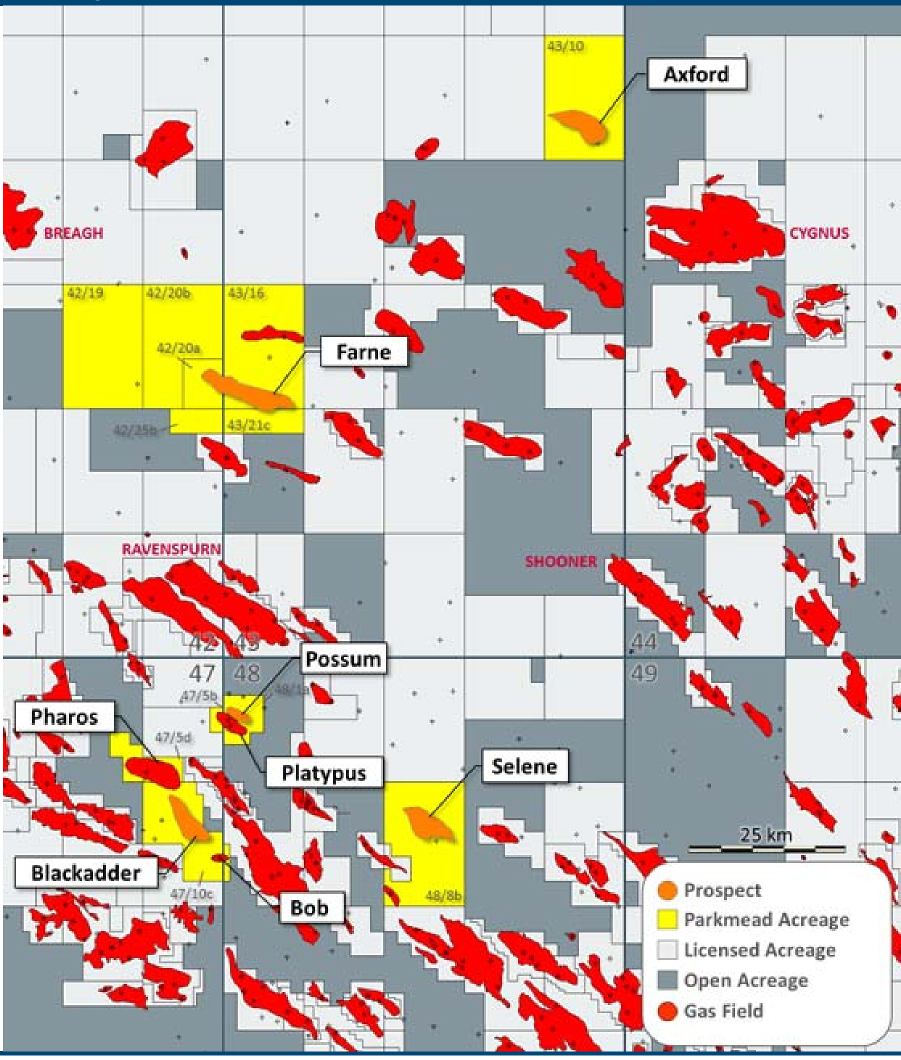
Southern North Sea portfolio

Parkmead has built up a substantial acreage position in the SNS, where it holds a number of discoveries and exploration prospects. Given the extensive infrastructure in the area and the high number of asset sales occurring in the North Sea, we could therefore expect Parkmead to increase its position in future.

The current portfolio comprises: two gas discoveries (Platypus and Pharos) and the associated step-out exploration prospects Blackadder and Possum as well as the standalone Selene exploration prospect. These assets were originally part of the Dana portfolio and as a result Parkmead has extensive knowledge of them with Dana continuing as operator today.

The SNS has produced in excess of 46tcf of gas from 140 fields and has been a key supplier of gas into the UK domestic market. Over 80% of this production has been from Lower Permian (Rotliegend) sandstones, and this is primarily where Parkmead is focusing its efforts.

Southern North Sea acreage



Source: Company data

Platypus/Possum (PMG: 15%)

The Platypus discovery is estimated to have 180bcf of gas in place with the Possum exploration prospect estimated to have 100bcf of gas in place with estimated recovery factors of 57% and 33%, respectively.

Going back to the hub development approach, should Possum prove to be a discovery then the two fields could be developed from a single hub with two wells at Platypus and one well at Possum, with gross capex of c£150-200m employed to bring gas onstream three years post FID and OGA approval of the FDP.

Pharos/Blackadder (PMG: 30.769%)

The Pharos discovery was made in 2013 and the field is estimated to have 236bcf of recoverable (recovery factor of 50%) gas. Given that the field is only 15km away from Platypus/Possum it could be tied into production via its hub at relatively low capex, with wells estimated to cost c£10-15m.

The Blackadder prospect has additional upside in the licence and is estimated to have c190bcf of gas in place. A drilling decision has yet to be made for this well and again a positive result could see it being tied into the Platypus hub at low cost.

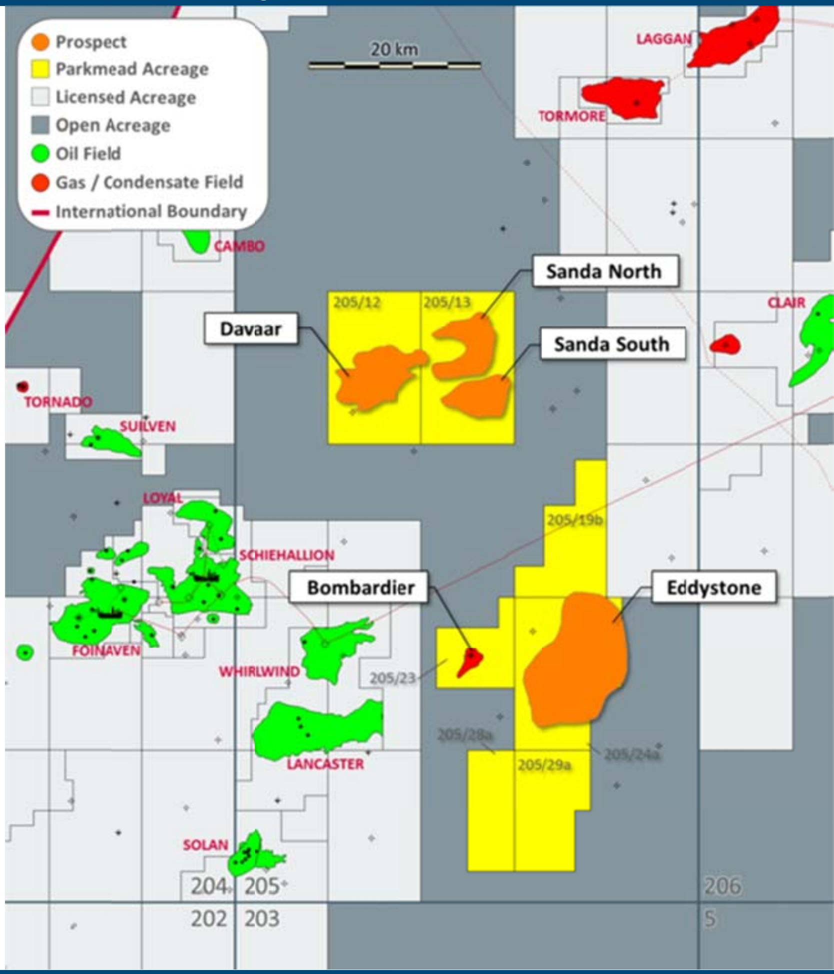
Selene (PMG: 50%)

This prospect lies to the southeast of Platypus, in an area which has seen a high degree of exploration success. Based on current analysis, Selene is estimated to have 234bcf of gross recoverable resources and is expected to have a high chance of success if drilled given the prospectivity in the area so far.

West of Shetland

This area of the North Sea has seen significant activity, with the Total operated Laggan-Tormore gas development coming onstream in February. More recently, Hurricane Energy started drilling at the Lancaster fractured basement oil field which is estimated to have contingent resources of between 62 and 456mmboe.

West of Shetland acreage



Source: Company data

Given the prospectivity in the region, Parkmead has acquired operating interests in multiple exploration prospects and leads: Sanda North & South (PMG: 56%), Davaar (PMG: 30%) and Eddystone (PMG: 43%) to the southeast.

Davaar prospect

This prospect was estimated by Gaffney Cline to have 159mmbbl of best gross prospective resources, with a 15% chance of success, in a CPR commissioned by Atlantic Petroleum and published in 2014. The neighbouring Sanda North and South satellites are estimated to have a combined gross resources estimate of c120mmbbl.

In terms of the geology of these prospects, it is thought that it is similar to the Foinaven-Schiehallion hub to the southwest as well as at Laggan-Tormore to the northeast. The Foinaven hub is expected to produce up to 600mmbbl over the course of its economic life, which includes water injection and gas lift.

Parkmead has previously stated that it intends to drill a well at Davaar and the licence has a drill or drop date that expires at the end of this year. Management expects from its discussions with OGA that the licence will be extended.

Eddystone lead

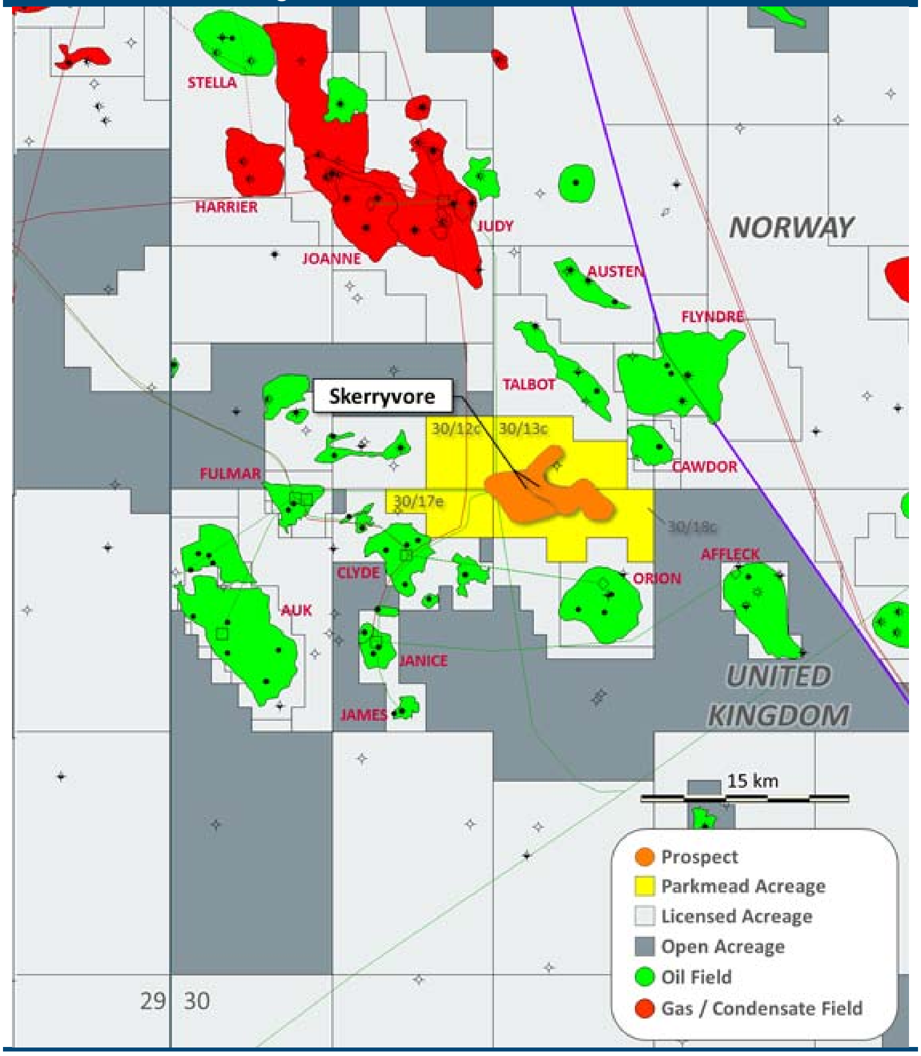
This Cretaceous lead is located to the east of Hurricane Energy's Lancaster field and is estimated to have c166mmbbl of best gross resources and a 9% chance of success according to the 2014 Gaffney Cline CPR.

Given that there have only been two discoveries (Edradour and Victory, which were gas/condensate and gas, respectively) the understanding of the Cretaceous play in this basin is still in its formative stages. Given that a well drilled adjacent to Eddystone was oil bearing, Parkmead is of the view that Eddystone is likely to be oil, although more work is required to work up this asset to drill-ready status. In terms of next steps, Parkmead plans to acquire more 2D seismic and conduct more studies before identifying possible locations for drilling.

UK Central Graben

This part of the portfolio holds the Skerryvore exploration prospect (PMG: 30.5%) and is located 250km offshore in shallow water close to the Norwegian maritime boundary. The field is also c40km southeast of the Greater Stella area which Ithaca Energy is bringing onstream in Q3 2016.

Central Graben acreage



Source: Company data

In 2014, Parkmead conducted a site survey and the prospect is now drill ready. Within Skerryvore, there are stacked prospects at the Palaeocene and lower Cretaceous chalk level, with the former thought to be an extension of the Talbot field to the north. The deeper chalk prospect shows seismic similarities to the Cawdor discovery to the northeast.

In the 2014, Gaffney Cline CPR, Skerryvore was estimated to have c66mmbbl of best gross resources with a c30% chance of success.

Income Statement				
Year ending July (£m)	2014A	2015A	2016E	2017E
Sales	**24.7**	**18.6**	**16.3**	**19.6**
Sales growth (%)	*n/a*	*-24.4*	*-12.6*	*20.0*
Cost of sales	-21.4	-52.3	-15.0	-15.0
Gross profit	**3.2**	**-33.7**	**1.3**	**4.6**
Gross margin (%)	*13.1*	*-180.7*	*7.9*	*23.3*
Operating expenses	-1.2	1.0	-2.3	-2.3
Adjusted EBITDA	**2.1**	**-32.7**	**-1.0**	**2.3**
Depreciation/Amortisation	0.0	0.0	0.0	0.0
Adjusted EBIT	**2.1**	**-32.7**	**-1.0**	**2.3**
Adjusted EBIT margin (%)	*8.3*	*-175.5*	*-5.9*	*11.8*
Associates/Other	0.0	0.0	0.0	0.0
Net interest	-1.0	1.9	0.7	1.2
Adjusted PBT	**1.0**	**-30.8**	**-0.3**	**3.5**
Adjustments	0.0	0.0	0.0	0.0
Reported PBT	**1.0**	**-30.8**	**-0.3**	**3.5**
Taxation	0.2	-0.5	-0.1	-0.1
Tax rate (%)	*nm*	*nm*	*nm*	*3*
Post tax profit	1.2	-31.4	-0.4	3.4
Minorities	0.0	0.0	0.0	0.0
Reported earnings	1.2	-31.4	-0.4	3.4
Weighted average no.shares	76.2	89.0	98.9	98.9
Average no.shares (FD)	76.2	89.0	98.9	98.9
Stated EPS (p)	**1.6**	**-35.2**	**-0.4**	**3.5**
Adj. EPS (FD) (p)	**1.6**	**-35.2**	**-0.4**	**3.5**
DPS (p)	**0.0**	**1.0**	**2.0**	**3.0**

Source: Company reports, finnCap estimates

Cash Flow				
Year ending July (£m)	2014A	2015A	2016E	2017E
EBITDA	**2.1**	**-32.7**	**-1.0**	**2.3**
Net change in working capital	0.0	0.0	0.0	0.0
Share based payments	0.0	0.0	0.0	0.0
Profit/loss on disposal	0.0	0.0	0.0	0.0
Net pensions charge	0.0	0.0	0.0	0.0
Change in provision	0.0	0.0	0.0	0.0
Other items	0.0	0.0	0.0	0.0
Operating cash flow	**2.1**	**-32.7**	**-1.0**	**2.3**
Cash interest	-1.4	-1.1	0.9	1.4
Tax paid	-0.3	-0.5	-0.1	-0.1
Capex	0.0	1.0	2.0	3.0
Free cash flow	**0.4**	**-33.2**	**1.8**	**6.6**
Disposals	0.0	1.0	2.0	3.0
Acquisitions	-8.8	-12.6	-3.7	-0.9
Dividends	0.0	1.0	2.0	3.0
Other	-3.0	-2.1	0.0	0.0
Issue of share capital/(Buyback)	39.5	13.0	0.0	0.0
Net Change in cash flow	**28.1**	**-32.9**	**2.2**	**11.8**
Opening net (debt)/cash	13.3	46.3	41.1	43.5
Closing net (debt)/cash	**46.3**	**41.1**	**43.5**	**54.6**

Source: Company reports, finnCap estimates

Balance Sheet				
Year ending July (£m)	2014A	2015A	2016E	2017E
Tangible assets	30.1	18.9	22.4	23.2
Goodwill	2.2	2.2	2.2	2.2
Other intangible	37.3	37.2	36.9	36.9
Other	0.0	0.0	0.0	0.0
Non current assets	**69.5**	**58.2**	**61.6**	**62.3**
Inventories	0.0	0.0	0.0	0.0
Trade receivables	11.6	6.0	5.0	5.0
Cash	46.3	41.1	43.5	54.6
Other	0.0	0.2	0.0	0.0
Current assets	**57.9**	**47.3**	**48.5**	**59.6**
Trade payables	-8.0	-14.6	-19.5	-27.9
Other current liabilities	-0.5	0.0	0.0	0.0
Short term debt	-2.1	-0.4	-0.4	-0.4
Net current assets	**47.4**	**32.3**	**28.6**	**31.3**
Long term debt	-4.2	0.0	0.0	0.0
Pension	0.0	0.0	0.0	0.0
Other/Minorities	-13.0	-10.0	-10.0	-10.0
Net assets	**99.7**	**80.5**	**80.1**	**83.5**
Net working capital	*3.6*	*-8.7*	*-14.5*	*-22.9*
NAV per share (p)	*130.8*	*90.4*	*80.9*	*84.4*
NTA per share (p)	*79.1*	*46.2*	*41.4*	*44.9*

Source: Company reports, finnCap estimates

A marketing communication under FCA Rules, this document has not been prepared in accordance with legal requirements designed to promote the independence of investment research and is not subject to any prohibition on dealing ahead of the dissemination of investment research.

This research cannot be classified as objective under finnCap Ltd research policy. Visit www.finncap.com

The recommendation system used for this research is as follows. We expect the indicated target price relative to the FT All Share Index to be achieved within 12 months of the date of this publication. A 'Hold' indicates expected performance relative to this index of +/-10%, a 'Buy' indicates expected outperformance >10% and a 'Sell' indicates expected underperformance of >10%.

Approved and issued by finnCap Ltd for publication only to UK persons who are authorised persons under the Financial Services and Markets Act 2000 and to Professional customers. Retail customers who receive this document should ignore it. finnCap Ltd uses reasonable efforts to obtain information from sources which it believes to be reliable, but it makes no representation that the information or opinions contained in this document are accurate, reliable or complete. Such information and opinions are provided for the information of finnCap Ltd's clients only and are subject to change without notice. finnCap Ltd's salespeople, traders and other representatives may provide oral or written market commentary or trading strategies to our clients that reflect opinions contrary to or inconsistent with the opinions expressed herein. This document should not be copied or otherwise reproduced. finnCap Ltd and any company or individual connected with it may have a position or holding in any investment mentioned in this document or a related investment. finnCap Ltd may have been a manager of a public offering of securities of this company within the last 12 months, or have received compensation for investment banking services from this company within the past 12 months, or expect to receive or may intend to seek compensation for investment banking services from this company within the next three months. Nothing in this document should be construed as an offer or solicitation to acquire or dispose of any investment or to engage in any other transaction. finnCap Ltd is authorised and regulated by the Financial Conduct Authority, London E14 5HS, and is a member of the London Stock Exchange.

60 New Broad Street
London EC2M 1JJ
Tel 020 7220 0500
Fax 020 7220 0597
Email info@finncap.com
Web www.finncap.com