BEAUFORT

A Guide to IPOs

Company's Featured

CMC Markets, Countryside Properties, Watkin Jones, Morses Club, Hotel Chocolat, Oncimmune, Joules Group, Motorpoint, Alpha Plus and Burford Capital.

Beaufort Securities Limited is an award-winning traditional Wealth Management house incorporated nearly a quarter of a century ago. Over the last two decades, we have established ourselves as one of the UK's leading independent private client investment houses.

We have an award-winning team of skilled and highly experienced investment managers who create and deliver investment strategies and ideas best suited to achieving client investment objectives. So, their advice is specific to clients' needs but it is also transparent, cost effective, innovative and focussed on achieving results.

Times are changing rapidly, what was good advice today can be outdated tomorrow. By developing a relationship with each client, we can provide up to date advice that keeps pace with the times and allows you to adapt your strategy accordingly.

IPOs

An **IPO** is an **Initial Public Offering** where a company first offers shares to be sold and bought. A raising may be planned in order to fund an acquisition, provide greater working capital for organic expansion or to reduce debt. IPOs create new listed companies for investors and the injection of new capital into the markets helps to keep the financial markets running smoothly.

An IPO may also be called a '**Float**' or '**New Issue**' and makes trading shares in the company significantly easier. Beaufort Securities offers this access to their clients, you could be among the first to own a stake in a household name or a quickly expanding business or you could secure a significant dividend yield from an established company you know and trust. Beaufort Securities cannot guarantee an allocation will be received, in some instances a small percentage to no allocation may be obtained. As with any investment, there are risks that must be considered and it is essential that you have all the information you require to make an informed decision.

As a respected Private Client Stockbroker, Beaufort Securities is in the fortunate situation of being able to participate in third party IPOs on behalf of private investors. We consider this provides additional opportunity given that our analysts pro-actively screen for those that might present value on a twelve month view. The reason companies wish to come to the stock market are varied and it can be a daunting task for entrepreneurs who suddenly find the management and the Company will come under increasing public scrutiny. We see our job as assessing the management for not only its ability to carry out its plans, be they steady or aggressive organic growth, or if there is a buy and build strategy, but can they cope with being a listed company.

Rumoured IPOs

Biffa Group — a waste management company, headquartered in High Wycombe. It provides collection, landfill, recycling and special waste services to local authorities and industrial and commercial clients in the UK. As of 2012, Biffa is the second largest UK-based waste management company.

First Utility — Britain's largest independent electricity and gas supplier, with over 800,000 customers, could list on the stock market in 2016.

Krispy Kreme — the Company are rumoured to have appointed banks with the aim of listing on the stock market in 2016. **[US Listing]**

Net-A-Porter — High fashion retailer headquartered in London operating via website in the style of a high fashion magazine and employing 2,600 people worldwide. Achieve approximately 2.5 million hits on their website each month with an average spend of around £500. Founder Natalie Massenet sold majority stake in 2010 for an estimated £50 million.

Office — a British footwear chain which is currently owned by Silverfleet Capital, a private equity firm. The company first opened up in 1981 and has since grown to 99 stores, with 48 concessions stands in premium department stores such as Selfridges, Harvey Nichols and House of Fraser.

Tesco Bank — founded in 1997, Tesco Bank has 6 million customers and announced profits of £102 million for the first half of 2014/15 financial year.

Beaufort Recommended IPOs in 2016*

Company *Epic*	IPO Price *IPO Date*	Closing Price 01/06/2016	% +/-	Market Cap	HI Price *Date*	Low Price *Date*	LSE Listing
EQUITIES							
CMC Markets ***CMCX.L***	240p *14 Jan*	270p	+12.5%	£777m	279p *28 May*	216p *09 Feb*	MAIN
Countryside ***CSP.L***	225p *17 Feb*	275p	+22.2%	£1,218m	287p 25 May	218p *20 Apr*	MAIN
Watkin Jones ***WJG.L***	100p *23 Mar*	115p	+15%	£294m	115.5p *01 Jun*	100.5p *30 Mar*	AIM
Morses Club ***MCL.L***	108p *05 May*	100.6p	-6.9%	£131m	116.5p *05 May*	99p *27 May*	AIM
Oncimmune ***ONC.L***	130p *30 May*	130.5p	+0.4%	£37m	140p *18 May*	126p *18 May*	AIM
Hotel Chocolat ***HOTC.L***	148p *10 May*	206p	+39.2%	£232m	224p *11 May*	175p *10 May*	AIM
Motorpoint ***MOTR.L***	200p *18 May*	231.5p	+15.8%	£233m	238 *24 May*	200p *18 May*	MAIN
Joules ***JOUL.L***	160p *26 May*	196.5p	+22.8%	£170m	198p *31 May*	187p *26 May*	AIM
		AVERAGE % +/-	**+15.12%**				
BONDS							
Alpha Plus Retail Bond 5%	100p *15 Mar*	103.4p	+3.4%	£130m issue	104.6 *16 May*	*101p* 12 Apr	MAIN (ORB)
Burford Retail Bond 6.125%	100p *19 April*	102.5p	+2.5%	£100m issue	102.8p *25 May*	100.1p *21 Apr*	MAIN (ORB)
		AVERAGE % +/-	**+2.95%**				

Average % +/- (bonds): +2.95% — **Prices were obtained via ProQuote on 1st June 2016*

Why list on the London Stock Exchange?

1. Raise new money for executing growth plans: Burford and Alpha Plus Retail Bonds, Oncimmune
2. Owner/Management realising a total or partial sale: CMC, Watkins Jones, Morses Club, Hotel Chocolat, Motorpoint
3. Private Equity selling some or all its investment: Joules (plus some Founder shares), Countryside,
4. Raise Company Profile

We decide if the valuation is reasonable, the reason for listing is credible and whether the plans are realistic considering market conditions and then we make the recommendation. Market conditions can affect the price of IPOs and initial trading can be affected as there is a short period of time between allocation and admission. It is important to realise that IPOs can go down as well as up.

If you are interested in any of the opportunities mentioned throughout this document, speak to your investment manager for updates.

CMC Markets (CMCX.L)

CMC is one of the leading online financial trading businesses operating globally through regulated offices and branches in 14 countries, with a significant presence in the UK, Australia, Germany and Singapore servicing retail clients.

In a Pre Close Trading Update on 31st March 2016, CMC has continued to trade in-line with expectations with the then recent market volatility helping to drive growth. Active client growth has been strong at approximately 13% year on year, with a modest increase in revenue per client. CMC is making further progress across its areas of strategic focus: Growth in Core Markets, International Expansion, Product Innovation, Digital Marketing and Institutional Offering.

The Company announced on 2nd June 2016 that global provider of online retail trading, is pleased to announce that CMC will be included as a constituent of the FTSE 250 Index on 20th June 2016.

Countryside Properties (CSP.L)

At the Company's interims to 31st March 2016, issued in May, it stated it was firmly on track to deliver 2016 expectations and medium-term targets with sales rate of 0.79 (HY 2015: 0.81) from 37 sales outlets (HY 2015: 27 sales outlets) and with a Private Average Selling Price of £505,000, up 46% (HY 2015: £345,000). The Group's private forward order book of £205.3m, up 4% (HY 2015: £196.7m).

David Howell, Chairman, said:
"We are delighted to be able to report excellent financial results for the first six months of the year, with progress made across the business. We are delivering on what we set out at IPO in February 2016 and are particularly encouraged by the new wins within the Partnerships division and continued strong demand for our new homes. We are well placed to deliver 2016 full year expectations across all areas of the Group."

Watkin Jones (WJG.L)

The Company announced its pre-close trading statement for the half year ended 31 March 2016, in April and report a successful first six months of the financial year with trading in line with its expectations. The Group had net cash as at 31st March 2016 in excess of £12.5 million. During March 2016, four student accommodation developments in Glasgow, Birmingham, Bath and Sheffield, representing 1,175 beds in total were forward sold with a gross development value of £82 million.

A total of 16 developments, comprising 6,395 beds, have now been forward sold, including all of the developments planned to be completed by September 2016 and 7 of the 9 planned to be completed by September 2017, and the Group is on site to deliver these developments. Watkin Jones has a further three developments totalling over 900 beds, under offer and in legal negotiations and a number of other planning applications have been submitted in respect of the ongoing pipeline. During March 2016, the Group's asset management subsidiary, Fresh Student Living, secured a further 536 bed scheme in Glasgow, which brings the total number of beds expected to be under management for the start of the 2016 academic year to 12,663.

The Group's progress in delivering the current development pipeline is encouraging and the Board remains confident in the outlook for the full year.

Mark Watkin Jones, Chief Executive Officer of Watkin Jones plc, said: "Our performance over the past six months reinforces the attractiveness of our end-to-end business model to institutional investors. The transition to a public company has gone very smoothly and I am delighted by the positive response to our successful admission to AIM on 23 March."

Burford Bond (BUR2.LB)

A leading player in the litigation finance market focused on commercial litigation and international arbitration, and business to business only. Litigation can take many years such that circa 45% of total investments have concluded. The Burford process of funding cases is rigorous, enabling high returns on capital. The bond will enable Burford to fund future cases and lead to a further step up in returns.

Alpha Plus (ALP2.LB)

Owned by Delancey's DV4 fund, creates centres of educational excellence in their schools and Colleges. They strive to establish a climate of high expectations and there is a genuine and visible commitment to setting challenging targets, exceeding expectations and maximising individual achievement. A key feature in the success is the appointment and retention of high quality school leaders, teachers and support staff. The establishments benefit from cutting edge technology and modern learning environments.

The school and college curricula are regularly reviewed to ensure their relevance and their potential to enable all their pupils to obtain first choice placements into destination schools and Higher Education institutions. The Group operates 12 independent schools, 2 nursery schools and 4 sixth form colleges. Many of these schools have a long and established history.

The Group's turnover increased by 51.8% over the last 5 years from £52.3 million in 2010/11 to £79.4 million in 2014/15. In the same period, EBITDA increased by 17.3% from £8.1 million to £9.5 million. However, this historic rate of EBITDA growth does not reflect the very significant potential future growth that will come through as available capacity in the current portfolio is utilised as schools mature. The bond will enable debt to be repaid and fund future investment in the schools, including additional schools.

Morses Club (MCL.L)

Morses Club is a UK financial services group with a 130-year track record; it specialises in Home Collected Credit, which is now being expanded to include online lending, revolving credit and mobile wallet. Being the no. 2 player in the UK, its operations and footprint are very similar to the highly successful Provident Financial Group. Given the quality of management and visibility offered, Morses IPO'd on a sub-11x 2016/17 P/E with 6% yield (compared with Provident's 17.1x and 4.2%) suggests it is something of a bargain.

The argument is strengthened further by two additional factors, (i) Quite extraordinarily, Provident's CCD operation is 440% geared, compared with 130% for Morse, suggesting that the latter retains the opportunity to gear-up its prudently managed balance sheet and, (ii) Operating in a highly fragments environment that is rapidly consolidating amid regulatory pressure, Morse is seeing numerous accretive acquisitions available at 70% of gross book that are big enough 'to make a difference'.

The key characteristics of Morses' business will remain highly predictable growth with highly predictable returns. This means it can offer a progressive dividend policy supported by strong cash generation. Investors are expected to receive almost a 6% yield in the current year, rising above 7% next.

Oncimmune (ONC.L)

Only listed on AIM in May, Oncimmune has a proprietary approach using autoantibodies for early cancer detection. This detects cancers up to 4 years earlier than other methods – including the currently recommended CT scans (with high false-positives) The First cancer blood-test based on a panel of autoantibodies and is a convenient & simple laboratory test – high detection rates for early stage cancers and is complementary to other technologies (CT scan). This is real-time disease monitoring with early detection of recurrence & regression.

EarlyCDT®-Lung, the Company's lung cancer detection product, has been validated over a 10 year period and since 2012 over 140,000 tests have been sold in the USA. It has been shown to be scientifically robust (case-control validation studies) and is now the subject of two large prospective clinical trials. Ideally positioned to generate significant value with EarlyCDT ®-Lung already in the market addressing the most significant need in cancer diagnostics. We await news as the trials progress.

Hotel Chocolat (HOTC.L)

Hotel Chocolat has certainly captured investor's imagination. The Group has created a valuable brand name and developed a loyal and highly engaged customer base. Its premium price offering comes with the efficiencies of a vertically integrated supply chain which has created sufficient momentum to provide double digit earnings growth this year and possibly next.

With strong cash conversion and returns, the Group is likely to come to market at around 18x forward earnings – a heady rating but acceptable if it accompanied with convincing long-term expansion plan. In this respect, there must be some concern that having managed to capture the buyers interest in a new and beautifully presented product, the fashionista's interest in Hotel Chocolat could deflate rapidly, as attention is diverted elsewhere.

Two announcements since float show Old Mutual has declared a holding over 7% and Hargreave Hale over 5%. Having seen a 30%+ increase since we recommended participation in the IPO, we now move the Recommendation to HOLD.

Motorpoint (MOTR.L)

Motorpoint is the UK's largest independent vehicle retailer in the United Kingdom. The Group's principal business is the sale of nearly-new vehicles, the majority of which are up to two years old and which have covered less than 15,000 miles. Motorpoint sells vehicles from brands representing over 95 per cent. of new vehicle sales in the United Kingdom, with models from Ford, Vauxhall, Volkswagen, Nissan, Hyundai, Audi and BMW being amongst the top sellers.

The Group operates from 10 retail sites across Great Britain, of which five have opened in the last four years, together with a national call-centre dealing with online enquiries. Motorpoint's independence from any OEM influence, scale and online offering have allowed it to develop into a disrupter to the established franchised dealer model by providing value based pricing, a broad choice of brands and high levels of customer service. Motorpoint's independence enables it to operate a strategic policy free from any constraints or requirements imposed by OEMs. In addition to the Group's retail sites, sales initiated from its online offering (either customers who reserved a vehicle online or made enquiries to the Group's call-centre following a visit to the Group's website) accounted for approximately 30 per cent. of total retail sales volumes.

The Group's revenue increased from £563 million for the year ended 31 March 2015 to £729 million for the year ended 31 March 2016, an annual growth rate of 29 per cent. In the year ended 31 March 2016, the Group retailed 52,400 vehicles, an increase of 11,000 in relation to the year ended 31 March 2015 when the Group retailed 41,400 vehicles. The Group has also experienced year on year growth in operating profit before exceptional items for the past four years; reaching £18.6 million for the year ended 31 March 2016, an increase of £8.1 million on the previous financial year.

Joules Group (JOUL.L)

A distinctive and authentic brand and one of Britain's fastest growing UK lifestyle brands. The brand is about 'time-off', family, heritage, countryside, Britishness and fun. It is a truly multi-channel offering -Wholesale (27%), Retail is 72% of which 98 UK stores 63% of retail, E-commerce 31% of retail, country shows 6% of retail. The Company has a fast growing international wholesale business and an attractive customer base of 25-44 age affluent and live in rural areas, but becoming broader as the brand gets recognised. Still low awareness but growth in shops helps the brand.

We genuinely believe there is a low fashion risk-70% is 'core' – with designs based on historically successful product-'Core continuity'-limited variation between seasons; 'Core updated'-Details updated across seasons; Seasonal, newness – more aligned to fashion trends but maintain unique colour, print and detail. Own in house design. We believe the Brand is strong and has real ability to compete in the lifestyle retail market. We offered clients two 'Retail Bonds', Alpha Plus Retail Bond and the Burford Retail Bond, ostensibly for yield.

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