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The Social Stock Exchange

Connecting impact companies with investors

January 2015

social stock exchange

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Impact investing

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Impact Investment is a small but fast-growing investment approach within the larger socially responsible investment field. This report surveys the characteristics of this approach as well as the role played by the Social Stock Exchange (SSX) in connecting investors and companies, via increased transparency and awareness of its member companies and soon also by providing capital raising opportunities. Finally, we present the 12 member companies of the SSX.

The multi-facetted nature of impact investing

Impact investing is extraordinarily versatile, covering a wide range of sectors and asset classes, though all companies involved have as a core mission to provide both a social or environmental impact as well as a financial one. This unique focus on both social good as well as a potential financial return is particularly interesting to pension funds and trustees who have to combine their fiduciary duty (possibly earning adequate returns) with an increasing push to invest responsibly. However, this wide spectrum of investment opportunities also implies that the cost for potential investors, both in time and in monetary terms, to retrieve information is high.

The SSX: From capital allocation to capital raising

The Social Stock Exchange seeks to allay these informational inefficiencies by increasing awareness of its member companies, and thus helping them find and access socially responsible investors, as well as by improving transparency. Each company has to publish an independently assessed impact report, which provides details on social and environmental objectives as well as verifiable evidence and metrics on how the company achieved its targets. Impact reports are published annually, allowing investors to track progress. The other major impediment to impact investing, access to financing, is soon going to be addressed by the SSX through the launch of a crowd-funding platform as well as a primary and secondary trading facility.

Impact Reports: Measuring impact

Impact reports help companies document and evidence their social impact. They cover five main themes: the social or environmental purpose of the company and the impact it seeks to deliver; the beneficiaries; how it delivers the impact; how it consults with all its stakeholders and finally what the evidence is, including how it is collected measured and reported. The 12 members of the SSX cover a range of companies in different stages of development, a wide range of sectors and several asset classes since three of the companies have issued bonds.

Companies in this report	
Accsys Technologies	AXS
Ashley House	ASH
Assura Group	AGR
Golden Lane Housing	MCAP
Good Energy Group	GOOD
HaloSource	HALO
ITM Power	ITM
Places for People	PFP
Primary Health Properties	PHP
Scope	SCOPE
V22	V22O
ValiRx	VAL

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Impact investing: Doing good while doing well

Impact investing is growing very fast

Impact investing is a small, but high-growth segment of socially responsible investment. Impact investing differs from other strategies in that it seeks both a financial and a social/environmental impact. For a company, this means that the delivery of social impact must be at the core of its business. This is the case for all 12 companies on the Social Stock Exchange.

The Social Stock Exchange – improving visibility and access to capital

Lack of awareness among investors, market fragmentation, the lack of transparency and the cost, both in time and in monetary terms, to retrieve information is high. This makes it hard for investors to find opportunities and for companies to access capital. The Social Stock Exchange helps address these aspects, notably by providing information on impact companies to investors through impact reports.

From information platform to exchange

The Social Stock Exchange was launched in June 2013 and has 12 members. It started out as an information platform, with members needing to be listed on an exchange. To qualify as a member, companies have to go through a stringent screening process and produce an impact report. The Social Stock Exchange has recently enhanced its offering by launching a crowd-funding platform, as well as announcing plans to launch a primary and secondary trading facility in Q1 of 2015, thus providing companies with financing options.

A very diverse set of companies

The 12 member companies have very different profiles. Ashley House, Assura Group, Primary Health Properties and ValiRx can roughly be classified as belonging to the healthcare sector. Places for People and Golden Lane Housing are involved in housing/community development, while Accsys Technologies produces environmentally sustainable construction materials. In the clean water space, we find HaloSource, while in energy we find ITM Power and Good Energy Group. V22 is active in the arts. Scope is perhaps more focused on education, but also provides housing. Most companies have issued equity but three have issued bonds.

Increased investor awareness

Since the inception of the Social Stock Exchange in June 2013, the member companies have raised over £200m equity, largely through placements with institutional investors. Part of this is likely due to increased investor awareness as a result of their membership of the Social Stock Exchange as well as the latter's role in connecting the companies with investors sharing the same values.

Introduction

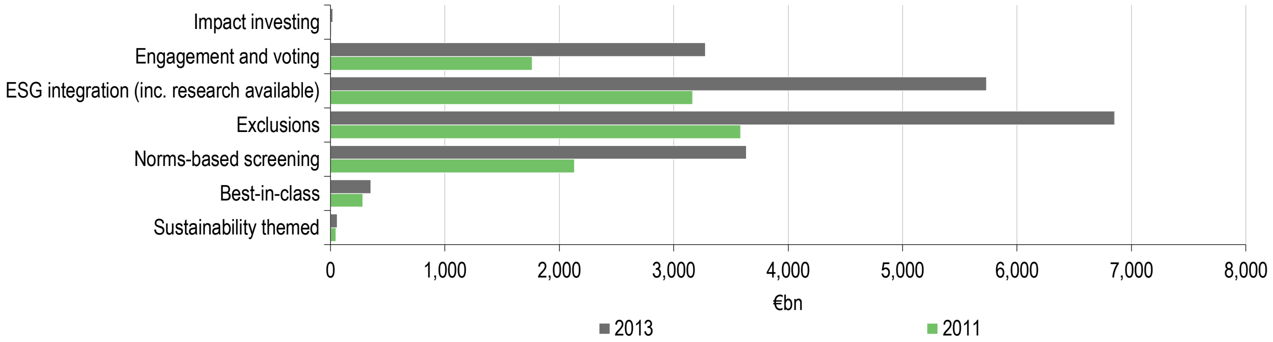
What is socially responsible investment?

Socially responsible investment (SRI), or sustainable and responsible investment, as it is also sometimes known, has been gaining a lot of traction over the past two decades as investors, both private and institutional, increasingly seek to align social, economic and political issues alongside financial considerations. According to the Global Sustainable Investment Review 2012, at least US$13.6tn of global professionally managed assets (ie nearly 22% of the total) included environmental, social and governance (ESG) considerations in their investment strategies. This trend is likely to continue as there is increasing awareness of the importance of including social and environmental outcomes in addition to possible financial returns.

SRI covers many different investment approaches or strategies, which can be used individually or in combination. Some strategies are based on investment screening, either negatively by *excluding holdings from the investment universe,* based on specific ESG criteria (for instance, tobacco), or positively, for instance by choosing companies whose use of ESG criteria are *best-in-class* in relation to their peers. *Norms-based screening* implies that investments are screened against minimum standards of business practice or international norms, such as those set by the United Nations Global Compact, the OECD and the International Labour Organization, etc. Investment managers very often use these ESG screens, especially exclusions-based ones, as an overlay to traditionally managed portfolios. They are relatively easy to implement and help explain why the assets under management relating to these approaches are so important.

Other approaches specifically include *the integration of ESG factors into financial analysis* while others focus on *engagement and voting* on sustainability matters. *Sustainability-themed investment* is another strategy, which refers to investing in specific sustainability themes (clean tech, sustainable agriculture, etc). Finally, *impact investing* involves seeking a financial as well as a social return on investment.

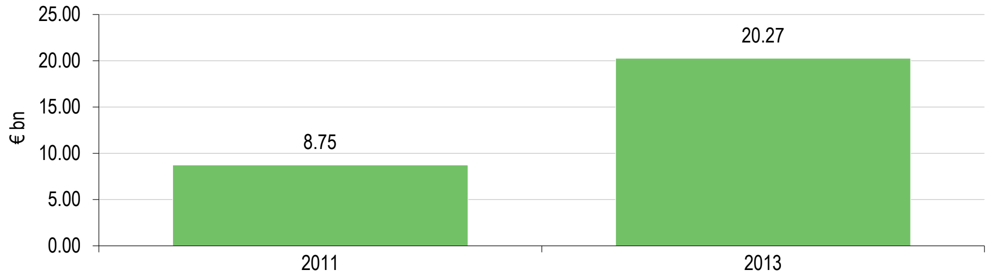
Exhibit 1: SRI assets under management by strategy



Source: European SRI Study 2014, Eurosif

The chart above shows the assets under management of these various strategies. Impact investing is still very small compared to other strategies, although it must be said that the Eurosif figures probably underestimate the actual size given missing or absent data for certain countries. It must also be noted that the Eurosif figures capture only institutional investors and asset managers and do not reflect philanthropy and public grants, both of which play an important role in this field. Still, as can be seen in Exhibit 2, impact investing is growing very fast and is attracting increasing attention.

Exhibit 2: Impact investing assets under management



Source: European SRI Study 2014, Eurosif

What is impact investing?

The term 'impact investing' was reportedly coined by the Rockefeller Foundation in 2007. Since it is a relatively new concept, several different definitions exist. The Global Impact Investing Network (GIIN) defines it as follows: "Impact investments are investments made into companies, organizations, and funds with the intention to generate social and environmental impact alongside a financial return. Impact investments can be made in both emerging and developing markets, and target a range of returns from below market rate to market rate, depending on the circumstances."

Doing good while doing well

Impact investing seeks to proactively include investments rather than exclude them. The definition above also outlines some of the key characteristics of impact investing, namely intentionality, measurability and profitability. The notion of **intentionality** means there must be an explicit and measurable intent to deliver positive social impact and this must be just as much part of the investment process as the potential financial return. For a company, this means the delivery of social impact must be at the core of its business. **Measurability** implies that this impact can be quantified and should be actively measured. This is perhaps where impact investing differs the most from other SRI strategies. Finally, the notion of **profitability** means that the investor also expects a possible financial return, thus differentiating impact investing from donations or grants. Note, however, this potential financial return is not necessarily the market rate of return. Expectations of possible returns vary depending on the asset class but also on the type of investor. 'Impact first' investors attach more importance to the social impact, but with a financial floor and can be willing to accept a below market rate of return. 'Financial first' investors place more importance on the financial factor, but with an impact floor.

Interest in impact investing is increasing

Impact investment is a relatively new segment, but one that is seeing strong growth and that is expected to continue at a fast rate. Attitudes are changing and it is becoming accepted that in some cases, investments can be more effective in creating positive social impact than simply donations and that combining social and financial motivations can be an efficient way to do good. Both the public and the private sectors are also aware that society's problems need innovative solutions and, faced with fiscal restraint, the public sector will increasingly have to allocate resources more efficiently. Impact investing can help provide a solution.

Investor interest is increasing, especially from high-net-worth individuals and foundations. Institutional interest is also increasing, but there remain some obstacles, not least of which is their fiduciary duty, which implies earning a possible competitive rate of return for their beneficiaries.

Although there are few figures relating to impact investing, JPMorgan and the Rockefeller Foundation[1] estimated in 2010 that the global market for impact investing could grow from about US$50bn in 2010 to between US$400bn - US$1tn by 2020.

Impact investing covers a wide range of asset classes

Impact investing is versatile and can take many forms, for instance seed and venture capital, equity, both private and listed, but also bonds, loan guarantees or other forms, such as social impact bonds (SIBs). The latter are a fairly new and innovative funding mechanism in which funds are raised from investors and a non-profit is selected to run a specific project. These projects typically address the underlying causes of a problem such as reducing homelessness, childhood obesity, recidivism in prisoners, etc, which can cause significant costs for the government over time. The government pays only if certain specific objectives (for instance, cost savings relative to another programme) have been met. Crowd-funding is also a way to approach impact investing.

Most of the members of the Social Stock Exchange have issued equity. However, three members have issued bonds. Of these, two are charities (Scope and Golden Lane Housing) and one is a not-for-dividend organisation (Places for People), and are unable to issue equity. Scope issued the first £2m tranche of a £20m social investment bond programme. The bond is listed on the Euro MTF in Luxembourg. Places for People was the first social housing provider to issue a retail bond on the London Stock Exchange's order book for retail bonds (ORB) and currently has two issues outstanding. Finally, Golden Lane Housing was the first to list a charity retail bond on the ORB. The bond is actually issued by Retail Charity Bonds, a new independent not-for-profit special-purpose vehicle set up to issue bonds for charities, and is secured by a loan to Golden Lane Housing.

Investments can be made in both developed and emerging markets and span a range of different sectors such as healthcare, housing, sustainable agriculture, renewable energy and clean technology, water, financial services and education, but can extend to perhaps lesser-known categories such as leisure and art. Two main themes underlying these sectors are social integration- and sustainability-related projects.

How does one measure impact?

Since the measurement of social impact plays such a key role, it is important to be able to measure it in a standardised and comparable way. To this effect, several global initiatives have been launched to either develop standards or assess the environmental impact of companies. For instance, Impact Reporting and Investment Standards (IRIS)[2] has established a standard framework and vocabulary for reporting information, essentially a taxonomy, which allows firms to benchmark, via a catalogue of generally accepted metrics, how outputs contribute to social change. Another example is the Global Impact Investment Rating System (GIIRS)[3], which seeks to provide an independent rating and analytics platform. These initiatives certainly help alleviate some of the main impediments to impact investing, namely the lack of comparable and transparent information, but there is still quite a bit more to be done.

However, in general, investors seek to measure outcome or impact, which is most often defined from the outset. Taking a somewhat general example of an impact value chain (see Exhibit 3), a company generates outputs, which can be defined as activities and operations that can be measured. This can be, for instance, the number of meals offered or the number of children attending a school. Outcomes reflect the effects of the outputs on the beneficiaries, for instance how much the meals served helped reduce hunger in the population. Finally, impact measures the

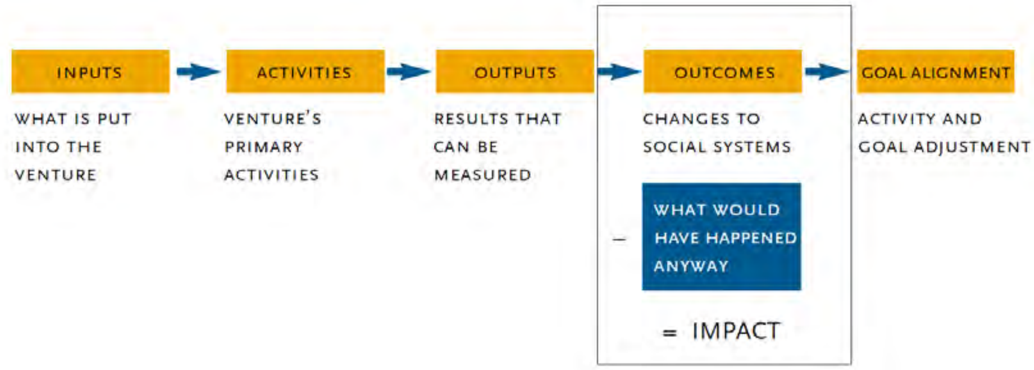
1 www.rockefellerfoundation.org/our-work/current-work/impact-investing

2 https://iris.thegiin.org/

3 www.giirs.org/

difference between the outcome and what would have happened anyway, that is to say the part of the outcome that results from the company's activities. For instance, a reduction in hunger in the population might be in part the result of an improvement in the economy or another food programme, etc. Use of metrics varies a lot, but investors generally use outcome and impact measures.

Exhibit 3: The impact value chain



Source: William Rosenzweig, Double Bottom Line Project Report 2004

Investors still face challenges

The field of impact investing is still relatively new and perhaps suffers somewhat from its immaturity. Lack of awareness among investors is still quite high. In addition, the fragmentation of the market, the lack of transparency and the cost, both in time and in monetary terms, to retrieve the information is high. Many impact investment opportunities are very small and it is thus hard for investors, especially institutional ones, to invest in these. Several companies have launched investment funds (for example, Goldman Sachs) or a fund of funds (the European Investment Fund) and this could help drive higher institutional penetration over time, giving investors exposure and diversification they would not be able to achieve otherwise. In addition, the lack of track record in terms of financial performance so far also seems to be an impediment to faster institutional adoption. Over time, though, and as the industry matures, many of these challenges are likely to disappear. We note that the Social Stock Exchange addresses some of these aspects, notably by providing information on impact companies to investors seeking impact opportunities in public markets via the Social Stock Exchange Impact Reports.

The Social Stock Exchange

The Social Stock Exchange (SSX) plays a vital role in connecting social impact businesses with investors seeking not only a potential financial return but also positive social and environmental change. It was officially launched by UK Prime Minister David Cameron in June 2013 at the first G8 Social Impact Investment Forum in London, with 11 members.

Core mission: To improve visibility and access to capital

The Social Stock Exchange started out as an information platform to improve access to capital for social impact companies, typically from sectors creating high social value such as healthcare, social and affordable housing, education, leisure, sustainable transport, clean technology and renewable energy, waste, water and recycling, green and ethical consumerism. To be admitted, member companies had to be quoted on a recognised stock exchange. Member companies could then lay out their social and environmental credentials through an independently assessed impact report. The process is described in detail on the next page.

Members of the Social Stock Exchange gain greater visibility as social impact businesses and also have increased access to investors sharing the same values, thanks notably to the marketing efforts of the Social Stock Exchange. The SSX organises meetings with investors, invests in social media on the companies' behalf and seeks to increase the companies' profiles through a variety of events. Impact reports can be found on the Social Stock Exchange website (www.socialstockexchange.com) as well as on a dedicated website, Impact Investor (www.impactinvestor.co.uk), which also contains other information on impact investing.

Easier access to capital through increased investor awareness?

One of the results of this increased awareness and the effort to connect companies with like-minded investors is potentially easier access to capital. We note that since the inception of the Social Stock Exchange in June 2013, the member companies have raised over £200m equity, largely through placements with institutional investors.

Although the Social Stock Exchange is based in the UK, it is designed to include companies and organisations from around the world. The Social Stock Exchange has 12 companies on its platform from a variety of different sectors, as can be seen in the exhibit below, though we do recognise that some companies are active in several fields. For instance, Golden Lane Housing provides specialist housing to people with learning disabilities, which also has a significant impact on their social integration.

Exhibit 4: The member companies of the Social Stock Exchange

Sectors	Companies
Affordable and accessible healthcare	Ashley House Assura Group Primary Health Properties ValiRx
Affordable housing/building materials	Places for People Golden Lane Housing Accsys Technologies
Clean technology and renewable energy	Good Energy Group ITM Power
Clean water	HaloSource
Education/social integration	Scope
Arts	V22

Source: Edison Investment Research

The admissions process

We have seen that the measurement of social impact plays a key role in impact investing, yet comparable and consistent information is difficult to obtain. This has proven to be frustrating for impact investors.

The Social Stock Exchange facilitates this process in that it enables investors to make informed decisions about member companies against stated objectives and verifiable, published evidence. Member companies have to go through a rigorous admission process that ensures members adhere to a clear set of values, standards and disclosures, notably through the publication of an impact report.

To be eligible for the Social Stock Exchange, a company has to have a social or environmental impact as a core aim and currently has to be publicly traded on a recognised stock exchange. It then needs go through the three steps of the admissions process:

1. **Submission of a basic application form to the admissions panel.** The application form should include a statement about the social issue or problem the company seeks to address and the basic metrics which will be used to ascertain that impact is indeed being achieved. The Panel gives a non-binding yes or outright no decision at that stage.
2. **Production of an impact report.** If the first step is successful, the company will need to produce an impact report. This is done with the help of an independent approved social impact specialist (for instance, PWC, Deloitte, the SROI Network, etc) with a background in impact measurement and reporting from amongst the Social Stock Exchange's register of approved experts. The specialist will help the company develop and assess the social or environmental metrics relevant to its business area or sector. The impact report must be updated annually.
3. **The impact report is then put to the admissions panel**, which consists of finance and social experts. The admissions panel reviews the impact report and determines if the company qualifies as a social impact company on the basis of its impact evidence. If so, it will be eligible for admission.

The impact report

A company uses this to document and evidence its social impact. The impact report comprises several sections:

1. **CEO commitment to social/environmental value.** This section comprises a brief description of the company as well as the social/environmental mission at the core of the business.
2. **The context in which impact is delivered.** The company typically describes its aim, ie the social or environmental purpose of the company, for instance reducing the use of environmentally unfriendly building materials (Accsys). It also puts it into context, indicating why it is important, and how it can help address the issue.
3. **The beneficiaries.** In this section, the company discloses who benefits as a result of the social impact. The beneficiaries can be global (for instance, the global community) or much more specific (government, customers, suppliers, users, families, communities, staff, etc).
4. **How business activities are key to the delivery of the impact.** The company describes how its products, services and operations deliver the social impact.
5. **Assessment of stakeholders.** This section explains how the company involves and consults with all of its stakeholders.
6. **Evidence/outcomes (key performance indicators).** Finally, the company brings evidence of its social impact and how this is calculated, measured and reported.

One of the key advantages of this process is that it makes the social and environmental focus of the business more transparent and visible. The Social Stock Exchange also strives to standardise the impact reports, via commonality of assessment and reporting, for instance by having the same headings, thus enabling investors to rapidly seek what they are looking for, regardless of the sector.

Since the impact reports also have to be updated and reviewed by the panel every year, this also ensures that standards and commitment are upheld. If a company shows mission drift or if it fails to deliver social or environmental impact, it risks being struck off the Social Stock Exchange.

These procedures, as well as the fact that the impact reports are updated annually, make it easier for the investor to find impact investments and remove a good part of the burden of due diligence from the institutional investor. Transparency is thus much increased.

However, transparency is not all. We have seen that some of the other challenges facing investors are liquidity and the ability to exit investments. For companies, it may be a challenge to find capital. This likely explains the Social Stock Exchange's next step.

A new step: Providing financing options

In September 2014, the Social Stock Exchange went a step further and announced a plan to launch a crowd-funding platform as well as a primary and secondary trading facility. The goal is to provide companies with different financing options, ranging from crowd-funding to IPOs

The Social Stock Exchange is collaborating with Angels Den for the crowd-funding platform and with ICAP Securities & Derivatives Exchange (ISDX) for the primary and secondary trading facilities. ISDX is a London-based stock exchange that provides companies with access to European capital through a range of fully-listed and growth markets. The ISDX collaboration will address companies with larger capital needs, while the crowd-funding platform targets smaller companies and involves smaller amounts of money. It will also make impact investing more accessible to retail customers.

For its crowd-funding initiative, the Social Stock Exchange has entered into a white-labelling agreement with Angels Den, a crowd-funding platform operator. Since Angels Den's foundation in 2007, it has raised around £18m, with deal sizes ranging from £15k to £1.7m. It currently has over 7,000 investors.

Crowd-funding consists of funding a project by raising money from a large number of people, ie the crowd, typically via an internet-based platform. Crowd-funding can be rewards-based, in which the lender receives a product (for instance, the product the company wants to produce) or a service in exchange for the funding, credit-based with payment of interest or equity-based with the lender receiving an equity stake. The Social Stock Exchange will provide equity funding.

All of this is, of course, subject to regulatory approvals and will likely only be launched in 2015, but it still represents a significant step forwards and should help further increase awareness, capital raising and liquidity.

The main sectors in impact investing

Impact investments span a wide range of sectors. IRIS has defined a certain number of sectors such as agriculture, education, energy, environment, financial services, health, housing and water for which it has defined various metrics. The list is likely not exhaustive, but encompasses most companies and while it is a very broad classification, it includes many different sub-segments. We also note that companies can have an impact in several sectors at once. A company active in social housing, for instance, might also be building energy-efficient houses. Also, many of these sectors can be found both in developed and developing countries, although the way an impact is made can be very different.

In the following sections, we will look at the sectors most representative of the members of the Social Stock Exchange, using the IRIS classification. We will look at healthcare, housing, energy, education, water and agriculture.

Healthcare

Ashley House, Assura Group, Primary Health Properties, ValiRx

Many people, especially in developing countries, lack access to basic healthcare services. Millions of people thus die from diseases that could be prevented or treated. In developed countries, ageing populations create additional demand for healthcare services while unhealthy lifestyles and chronic diseases such as cancer, diabetes, chronic respiratory diseases and mental illness create a huge financial burden.

Impact investing can therefore have a positive effect both in developing and developed countries. Initiatives can aim to improve healthcare access and delivery or detect and prevent disease, typically focusing on effective and low-cost solutions. Education, better nutrition and hygiene practices can also have a positive impact on overall health. In the developed world, impact investing can have a positive effect in areas addressing lifestyle issues and nutrition (measures to reduce obesity, giving poorer communities increased access to healthy food, encouraging a healthy lifestyle, etc). Of course, it can also imply giving people access to affordable healthcare.

Among the members of the Social Stock Exchange, we believe four companies could belong to this category. Although their business models differ (one is a biotech company while the other three companies are property companies), they are unified by an aim of achieving better health outcomes.

Ashley House provides buildings and facilities that help improve people's access to better coordinated and integrated healthcare services and provide access to good housing for those with care needs.

Assura Group is a focused primary healthcare property company. Its portfolio is helping to modernise health services in the UK and to create a sustainable primary care infrastructure for the benefits of patients, healthcare professionals, commissioners and the wider society.

Primary Health Properties (PHP) provides modern, purpose-built primary healthcare centres in the UK, enabling doctors to move from cramped, dated, relatively inaccessible and energy-inefficient properties into new purpose-built units, indirectly benefiting the patients served and enabling the NHS to save since primary care costs are significantly lower than providing secondary care through hospitals.

ValiRx is a biotechnology company based in London that develops diagnostics and therapeutics for cancer. It has three core aims: enhancing patient care, achieving faster diagnoses and substantially improving treatment outcomes cost effectively.

Housing/building materials/community development

Accsys Technologies, Places for People, Golden Lane Housing

There is a real need for affordable housing in the developed and developing world. Increasing urbanisation accentuates this trend. Yet there is very often a substantial funding gap between the need for affordable housing and what the public sector can provide, even when it does have policies in place aiming to increase the supply of affordable housing, as in the UK. The problem is exacerbated if we look at specialist housing, ie housing for people with special needs, which often gets overlooked in the allocation process.

Other issues affecting this sector, and for which impact investing could provide solutions, are the issues of inadequate housing financing and environment-friendly as well as cost-efficient buildings.

Places for People is active in affordable housing and Golden Lane Housing provides housing for people with learning disabilities. However, we should also note that Scope, which provides a range of services for disabled people, also provides housing. Accsys is focused on commercialising its chemical technologies, which impart enhanced durability and stability properties to fast-growing softwood tree species, producing high-grade, environmentally sustainable construction materials.

Accsys is a chemical technology group focused on the development and commercialisation of a range of transformational technologies based on the acetylation of solid wood and wood elements (wood chips, fibres and particles) for use as class-leading, environmentally sustainable construction materials. Produced by using abundantly available and typically fast-growing, sustainably-sourced renewable wood resources, the products offer comparable or superior qualities to the highest-performing non-sustainable tropical hardwoods or manmade materials, including class one durability and dimensional stability, while benefiting from all the attributes of wood without the downfalls.

Places for People is a not-for-dividend organisation. It provides people with affordable and secure homes but is convinced that investing in communities is an essential part of this. Its approach thus goes further than simply building homes, as it also looks at what an area needs to be able to thrive, such new schools, shops, leisure facilities, job opportunities, and access to learning and training or specialist support services.

Golden Lane Housing works with people with a learning disability to provide supported housing, enabling them to have greater independence and more control over their lives.

Energy

Good Energy Group, ITM Power

According to the International Energy Agency, 18% of the world's population lacks access to electricity and uses polluting kerosene, candles and flashlights for their basic energy needs. 38% lack clean cooking facilities. Over 95% of these people are either in sub-Saharan Africa or developing Asia and 84% are in rural areas. Lack of essential electricity infrastructure is preventing social and economic development. Yet many regions, such as Sub-Saharan Africa, have vast renewable energy sources (hydropower, solar, etc) but are often slow to develop it due to lack of funding or political instability. Many people also use bioenergy (fuelwood, charcoal) for their basic cooking needs, putting a strain on forestry, while pollution from indoor smoke due to inefficient cooking stoves can have significant health effects. Finally, many countries continue to rely on coal to drive their economic growth.

In developed countries, concerns about climate change, high energy costs and sustainability have led to a focus on clean energy solutions, more effective energy delivery and consumption, notably with smart infrastructure investments and increased energy efficiency.

Good Energy Group's and ITM Power's primary focus is on energy. We do note, however, that many other companies also incorporate energy-related outcomes in their business models.

Good Energy empowers individuals and businesses to switch their energy supply to renewable electricity, generate their own renewable power, participate in local community energy initiatives and use their energy more efficiently. Good Energy believes that decentralised generation, where power is generated at home and in communities, is as important for the UK's future energy security as cutting carbon emissions. As well as encouraging small-scale decentralised generation, Good Energy also invests in new sources of renewable generation for Britain, through onshore wind and renewable heat projects.

ITM Power is actively involved in power-to-gas, where excess renewable electricity is passed into an electrolyser to generate hydrogen. This can be stored and used to power gas turbines, or injected directly into the natural gas grid, reducing the demand for fossil fuels, storing renewable energy and helping to balance the grid network.

Education

Scope

One of the most important responsibilities of the public sector is the provision of basic universal education. Unfortunately, lack of resources and limited capacity, mainly in developing countries, imply that this is not always the case. A recent UNESCO report[4] indicates that 58 million children of primary school age, of which 31 million were girls, were out of school in 2012. Given the positive social and economic impact education can have on a person's life and wellbeing (as well as the positive impact on GDP), there is clearly a lot to be done in this field.

Developed countries also have their issues. Although most children have access to education, there is significant inequality of opportunity depending on social and ethnic background. Other problems, perhaps more linked to professional and social integration, include adult illiteracy, low qualifications, long-term unemployment and workplace skills training, etc.

Impact investing is relatively new to the field of education but has a role to play. The opportunities are numerous and varied, ranging from provision of schools, educational materials and low-cost private education in developing countries, to technological solutions and charter schools in developed countries.

Scope provides education via schools for disabled people as well as information and support for families. It also works with disabled people on the issues that are most important to them, raising awareness, changing attitudes and influencing government policy. Scope is all about changing society for the better, so disabled people and their families can have the same opportunities as everyone else.

Water

HaloSource

According to the UN, 783 million people do not have access to clean water and almost 2.5 billion do not have access to adequate sanitation. With an increasing population and changing diets, agricultural water consumption is set to increase. Yet agriculture already accounts for 70% of global fresh water withdrawals. Climate change will also increase water stress in many regions.

Lack of waste water treatment – with over 80% of used water not being collected or treated – also affects health and food security.

[4] UIS Fact Sheet, June 2014

HaloSource is a global company that develops clean technologies to disinfect and purify the water people drink, play in and put back into the environment. It is active in three main areas: disinfection solutions for point of use clean drinking water, pool and spa treatment products, and water clarification products for industrial and municipal application.

Other

V22 could fit into several categories. It could belong to housing, since it manages buildings in London and provides affordable studio space to artists and artisans, but it could also belong to education, since it specialises in the collection of contemporary art, the production of exhibitions, events and educational initiatives. We have, however, chosen to present it separately since its main focus is on art, which is in itself an impact investment category.

Company profiles

Accsys Technologies

Building materials

Accelerating global growth ambitions

Accsys is demonstrating good market penetration of its added-value building materials and increasing efficiency in its proprietary production process. The next stage is expected to be characterised by licence agreements with third parties accelerating global growth ambitions and generating additional income flows for the company.

Added-value construction materials

Accsys is focused on commercialising its chemical technologies, which impart enhanced durability and stability properties to fast-growing softwood tree species, producing high-grade, environmentally sustainable construction materials. It has established in-house production, an extensive international distribution network and licence and three year global co-operation agreements with Solvay for solid wood products and a JV with Ineos for wood element-based ones. The development of these arrangements is to define the next stage of growth and planned plant investment by Solvay in 2015/16 should provide good progress milestones. Management believes that the potential market for its treated wood products exceeds 2.5m cubic metres pa, compared to c 25,000 cubic metres sold in FY14.

Revenue growth, lower trading loss and cash

H1 results showed revenue growth of 38% to €21.8m (following a 78% increase in FY14) with an enhanced gross margin, profitable manufacturing operations and a reduced overall group operating loss. Accsys ended H1 with €13.5m cash (€9.9m net) after a c €3m outflow in the period reflecting its trading performance and ongoing business investment. A one-off payment of c €3m to a licensee is anticipated in H2, along with a modest further pre-tax loss. The company expects to become cash positive during 2015 assuming that the business develops as currently planned.

Valuation: Moving to a technology-based rating

The share price has mostly traded in the 50-80p range for the last 12 months. Excluding net cash, Accsys is capitalised at c 1.3x expected current year revenue and c 1.1x on the same measure one year out. As the business develops, greater clarity on the revenue model and rate of profitability will emerge. We expect that an increasing proportion of technology-derived licence fee and royalty income streams in the P&L will underpin cash-based valuations for investors.

Consensus estimates

Year end	Revenue (€m)	PBT (€m)	EPS (€)	DPS (€)	P/E (x)	Yield (%)
03/13	18.8	(10.7)	(0.13)	0.0	N/A	N/A
03/14	33.5	(8.2)	(0.10)	0.0	N/A	N/A
03/15e	42.8	(3.3)	(0.03)	0.0	N/A	N/A
03/16e	50.7	(0.1)	0.0	0.0	N/A	N/A

Source: Bloomberg

Price*	**58p**
Market cap	**£51m**
	€1.26/£

*Priced as at 13 January 2015

Share price graph

Share details

Ticker	AXS
Listing	AIM/NYSE Euronext
Shares outstanding	88.75m
Net cash (€m) as at September 2014 (including finance leases)	9.9

Business description

Accsys is focused on the development and commercialisation of a range of transformational chemical technologies based on the acetylation of solid wood (Accoya) and wood elements (Tricoya) to produce class-leading, environmentally sustainable construction materials.

Bull

- Market acceptance and revenue generation.
- Licence agreement with Solvay (Accoya) and JV with Ineos (Tricoya).
- Established international distribution network.

Bear

- Loss-making and negative free cash flow in H115, but improving versus H114.
- Exceptional €3m H215 cash payment to licensee.
- Still to demonstrate third-party manufacturing model.

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Social impact reporting

Social purpose and context	Accsys aims to reduce the consumption of endangered hardwood species and non-renewable, high carbon emitting building materials. Its chemical technologies impart enhanced properties of durability and dimensional stability to typically fast-growing, sustainably sourced renewable forest products. This is achieved with a lower carbon footprint – taking a whole life view (in production, period of use and end-of-life disposal) – without degrading resources of non-renewable materials.
Who benefits?	At the global level, slower depletion of natural forestry and other resources is seen as a contributor to environmental preservation, improved carbon sequestration and reduced harmful emissions. This also applies at country level where governments can influence behaviour through legislation, regulation and local target setting. At product level, Accsys's technologies provide additional customer choice through an international distribution network and licence agreements that encourage trade and employment.
Activities and operations	Accsys uses its patented acetylation wood technology to produce Accoya at its Arnhem manufacturing facility, using fast-growing softwood species sourced from certified, sustainably managed forests. Product waste and chemical by-products are recycled or sold for other applications. The company invests to develop its technology, production process, breadth of species and product applications. It also promotes a healthy and safe environment for employees, suppliers and partners throughout the distribution chain, with active training programmes and courses related to the use of its products. Accoya is non-toxic and fully biodegradeable. Hence, as well as having a warrantied longer life, Accoya can be reused or incinerated in the same manner as untreated wood at the end of its first life phase.
Stakeholders	In the company, employees and the board are considered to be stakeholders as are all business partners (including distributors, licensees, JV partners and customers). Internally, management communicates, sharing information and ideas, through regular meetings and newsletters and encourages engagement and feedback. The management of licence and joint venture agreements are key day-to-day operational tasks. Accsys services its distributor agreements through ongoing (marketing, training and certification) support and an annual Accoya conference. In addition, it maintains relationships with end-customers and other interested parties through marketing literature, a corporate website, social media and other agencies. The company is listed on the London AIM and NYSE Euronext Amsterdam exchanges and communicates through frequent announcements, financial reports and the AGM. The recent addition of two highly experienced non-executives to the board increases the total number of NEDs to four, plus three executive members.
Evidencing social value	In its annual disclosures, Accsys reports progress on a number of metrics including emissions, employees and those relating to commercial stakeholders. In the year to March 2014, it noted a c 37% reduction in greenhouse gas emissions per cubic metre of Accoya produced. Commercially, Accoya sales rose by c 77% to €29.3m and the number of distributor agreements was increased by 19 to 61 in total. Finally, the level of staff members participating in the employee share scheme rose from 22% to 25%.

Source: Accsys Technologies Impact Report October 2014, Edison Investment Research

Ashley House

Construction & materials

Growing pipeline but slow activity

A tough funding environment for both NHS primary care and social care development continues to affect reported earnings at Ashley House (AH). Meanwhile, its pipeline of approved new schemes – potential future earnings – continues to increase. AH is developing new sources of third-party investment funding, which, if combined with additional in-house development capital (potentially both equity and debt), have the potential to materially accelerate delivery and reported results.

Operationally geared to pipeline conversion

FY14 saw four projects completed, while the pipeline of schemes to which AH has been appointed grew to 31 with a value of £150.5m, of which Extra Care social housing was £102.1m. Reported losses reflected negative operational gearing, but also included non-cash impairments of £1.7m on the group's investment in (LIFT) joint ventures. NHS funding for primary care remains slow, but medium-term prospects are good. For Extra Care, AH is negotiating third-party funding schemes to accelerate the conversion of the growing pipeline into potential revenues and profits.

Significant progress in Extra Care funding

Revenues/earnings on development work are substantially recognised when schemes go on-site, creating an inherently lumpy profile to earnings. AH will report interim results in January, which it has indicated will show a loss at the EBITDA level, but will also likely include an update on progress with putting in place funding to move approved schemes into development. This includes the recently signed memorandum of understanding with a major UK investment fund manager, giving access, through a new fund, to an initial £100m of debt to be deployed over the next 2-3 years exclusively on certain of AH's Extra Care schemes. It is intended that the fund will acquire projects once they are built. AH is exploring funding solutions (equity and debt) for the construction period. AH has two schemes that are ready to move to development once funding is complete.

Valuation: It is in the pipeline

On consensus earnings (adjusted to add back c £1.0m pa of expected further impairment charges in FY15 and FY16), the valuation is modest. However, there is potential for equity dilution (from any fund-raise) and revenues are lumpy in nature. The real value lies in the pipeline of potential revenues, which with funding in place could generate substantial operational gearing off the lean cost base.

Consensus estimates

Year end	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	P/E (x)	Yield (%)
04/13	15.8	1.7	3.0	0.0	2.6	N/A
04/14	8.3	(2.7)	(4.7)	0.0	N/A	N/A
04/15e	19.4	1.9	3.3	0.0	2.3	N/A
04/16e	20.4	2.1	3.6	0.0	2.2	N/A

Source: Company broker. Note: * PBT and EPS* are adjusted for exceptional items

Price*	**7.75p**
Market cap	**£5m**

*Priced as at 13 January 2015

Share price graph

Share details

Ticker	ASH
Listing	AIM
Shares outstanding	58.3m
Net debt (£m) as at 30 April 2014	1.6

Business description

Ashley House has more than 20 years experience of resourcing, funding, design and development management of health property and social housing. It partners with providers and commissioners in the public, private and community sectors.

Bull

- Strong pipeline of approved schemes.
- New Extra Care funding and NHS 'normalisation' has potential to unlock the pipeline.
- Operational gearing should be strong.

Bear

- Current low development progress generating losses.
- Development-stage funding may require equity as well as debt.
- Cash flows are likely to support development before dividends.

Analyst

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Social impact reporting

Social purpose and context	AH's social purpose is to bring about a positive change to the lives of people living within their communities by enhancing access to improved services and environments in the health and social care sectors. This is often in areas of deprivation, for those most in need, with a focus on groups with physical or mental health needs, and other socially excluded groups. The broader context is the persistent and significant deficit in health and social care infrastructure in the UK. AH works with professional service providers, community enablers and individuals in the health and community sector, providing expert support (including design, funding solutions, construction management and asset management) to help them achieve cost effective, health and community care property solutions for their health and social care services. AH's vision is to be the leading property development partner to these groups.
Who benefits?	Direct beneficiaries include the patients and service users who have improved access to modern purpose-built healthcare facilities that can better provide a broader range of treatments, as well as the housing of residents who gain access to affordable, safe, and welcoming accommodation. Other beneficiaries include the providers of services and the commissioners of those services. GPs, other healthcare professionals and carer groups are able to enhance their services and work more efficiently, supporting local authorities and the NHS to meet their wider goals and statutory responsibilities. Local communities benefit from involvement in the planning process and from the aim to maximise the use of local labour and suppliers. High levels of design standards promote energy efficiency to support the environment.
Activities and operations	Key business activities that support AH's social purpose include designing buildings, managing their construction, sourcing and arranging financing solutions, and managing the completed property, singly or as part of an estate. Funding for healthcare schemes through NHS England has been restricted over the past two years, although the medium-term outlook is positive. The recently released NHS England Five-Year Forward View underlines the increasing role of primary care, driving healthcare services into the local community where they can be delivered more effectively. Sector growth should be further supported by an aging population and the inadequacy of much of the existing primary care estate. Meanwhile, AH has refocused on Extra Care housing provision where a need exists around the country.
Stakeholders	AH works closely with various stakeholders on each of the projects it undertakes. Stakeholders include those individuals (or groups of individuals) or organisations that are directly or indirectly affected by its activities. Important among these are the end beneficiaries, health and social care commissioners and providers, AH staff and the AH supply chain, government and third sector bodies, and project investors.
Evidencing social value	During the past reporting year AH worked on five new health and care facilities (one completed and four under construction), and completed one new social housing project providing 60 new affordable homes. It was engaged in 30 community consultation events during the proposal, planning and construction phases. These developments had measurable positive effects on local labour and supplier markets, and the environment. New service suppliers were enabled and third sector organisations catered for.

Source: Ashley House Impact Report 2014, Edison Investment Research

EDISON

Assura Group

Real estate

Acquisitions support income growth

As an investor in, and developer of, primary care property, Assura (AGR) targets potential total shareholder return (based on attractive dividends and NAV growth). Dividends are fully covered and backed by secure cash flows (87% effectively underwritten by the UK govt while GP occupancy is high and stable) generated on long leases (weighted average 14.6 years) with upwards-only rent movements. AGR is internally managed and developments undertaken by its in-house team contribute to NAV growth and is demand led, supported by close relationships with commissioners.

Strong growth in H1, with good growth prospects

During H115, AGR completed £124m of investments, taking the completed portfolio to £766m (with £20m underdevelopment). Rental income grew 24% and underlying profit from continuing operations grew 17%. Recent acquisitions are yet to fully contribute and the rent roll increased 17% to £49.0m. £175m of new equity (414.3m shares at 43.5p) has since been raised (taking the pro forma LTV to 47% from the 64% reported). With a strong pipeline of development and acquisition opportunities, £106m has been invested thus far in H2. There is considerable under-investment in the UK primary care infrastructure, and this is high on the agendas of both the NHS and all main political parties. There are some signs that the recent slowdown in the rate of approvals for new developments from the NHS is thawing.

New group structure proposed

Underlining its focus on the UK and especially the NHS (more than 87% of revenue) the group is proposing a new structure that will move its domicile from Guernsey to the UK. While Assura expects this will support its long-term strategy and growth, we expect no impact on near-term financial results, given that it is has been tax domiciled in the UK (as a REIT) since 2013. The proposals are subject to shareholder and court approval.

Valuation: Yield supported by NAV growth

Assura expects to pay 1.85p of fully covered dividends in FY15, providing an attractive yield (3.7% prospectively) with good prospects for further NAV growth. Although lower yielding than peers that focus solely on investment, its development activities should enhance NAV growth (yield compression and rent growth are also supportive), and lift total possible return (NAV growth plus dividends). Asset backing is strong, and the H115 price to EPRA NAV is 1.13x.

Consensus estimates

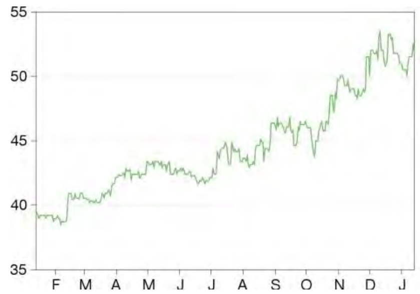
Year end	Revenue (£m)	PBT (£m)	EPS (p)	DPS (p)	P/E (x)	Yield (%)
03/13	37.1	8.8	1.7	1.16	30.5	2.2
03/14	39.9	10.9	2.1	1.51	24.7	2.9
03/15e	50.1	15.3	2.0	1.90	25.9	3.7
03/16e	57.4	23.4	2.3	2.10	22.5	4.1

Source: Estimates from Thomson Datastream. Note: FY13 and FY14 revenue, PBT, and EPS are underlying as reported by company.

Price*	**51.8p**
Market cap	**£522m**

*Priced as at 13 January 2015

Share price graph



Share details

Ticker	AGR
Listing	LSE
Shares outstanding	1,007m
Net debt (£m) as at 30 Sept 2014	521.3

Business description

Assura Group Limited invests in, develops and manages primary care property across the UK, principally let long term to GPs and NHS organisations backed by the UK government. This tenant profile provides an exceptionally secure rental outlook.

Bull

- Low risk investment and development business model, with growth.
- Medium-term development prospects are good, supported by demand and NHS strategy.
- Equity raising leaves balance sheet strong.

Bear

- New development activity is still depressed by NHS reform.
- Relatively high cost of debt funding (5.31%).
- High pay-out requires part equity funding for growth, although recent raise satisfies immediate growth needs.

Analyst

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Social impact reporting

Social purpose and context	Assura states its primary focus is to transform local communities by promoting health and wellbeing through its development, investment in, and management of primary care healthcare properties. It believes that modern primary care facilities support this goal as well as providing for a flexible solution to the evolving needs of a modern NHS. The UK's ageing and growing population creates increasing demands upon the healthcare sector, creating significant strains on the primary care estate across the country. Government policy and NHS planning looks for a continuing shift in specialist services from hospitals to community-based primary care, creating additional strains on the existing estate. A large proportion of that estate is not compliant with the current requirements of the NHS and seems destined to fall further behind without significant investment. Many GPs continue to practice from converted residential dwellings that cannot meet these requirements while relatively new purpose built surgeries have been poorly located to meet the new demands, or lack the flexibility of design to enable them to evolve and avoid becoming too cramped and outdated. Significant future investment in the primary care estate seems inevitable. In the 2014 Autumn Statement the treasury allocated an additional £1bn for investment in primary care facilities over four years. In partnership with GPs and NHS stakeholders Assura aims to ensure that each of its new developments is unique and meets the individual requirements and aspirations of the end users (the patients), in clear alignment with the strategic development of the NHS.
Who benefits?	Assura's growing portfolio (254 medical centres) is helping to the modernise of health services in the UK and create a sustainable primary care infrastructure for the future, for the benefit of patients, healthcare providers, commissioners, and wider society. As both a developer and active investor, Assura is involved at all stages of the long-term process that seeks to ensure the needs of the community continue to be met and evolving requirements for the primary healthcare estate can be satisfied.
Activities and operations	Assura acts as a property developer, investor, and manager of facilities. New projects are typically sourced directly from NHS commissioners or indirectly by discussion with local GPs, ensuring local needs are being met. Assura's medical centre portfolio is wholly owned and managed to maintain compliance with CQC requirements and meet the developing needs of tenants.
Stakeholders	Assura has identified the following groups as key stakeholders: end users, ie the patients, tenants (GPs and other healthcare providers), the local community, the NHS and commissioners, as well as Assura's staff, business partners and investors. Ongoing and effective stakeholder engagement is a key company target.
Evidencing social value	During the past reporting year, Assura's growing portfolio provided for an increased the total area occupied by NHS tenants, serving an increasing number of patients. Nine developments totalling more than 10,000sqm were completed and more than 60 properties invested in. An estimated 1,452 GPs worked in Assura-owned property, serving 2.27 million registered patients.

Source: Assura Group Impact Report, Edison Investment Research

EDISON

Golden Lane Housing

Charity

A secure income stream

As a supported housing provider to people with learning disabilities, Golden Lane Housing (GLH) has a secure income stream. Its tenants are largely insulated from decreases in benefits, it has low vacancy rates (about 4%), low levels of bad debt (0.2% of income) and has been running a surplus since its inception. This consistent performance is expected to continue on the back of strong need for specialist housing. The proceeds of the 2014 Retail Charity Bond will go towards the acquisition of new properties. The bond has an attractive interest rate of 4.375% with rental income covering interest payments and a good outlook for repayment.

A strong need for specialist housing

Golden Lane Housing is a charity providing housing for people with learning disabilities. GLH has around 675 properties, of which 400 are on freeholds or long leases. Demand is strong: only 15% of people with learning disabilities are in secure long-term tenancy or own their own home. Most have inadequate housing, either in large institutions or with their families, who are in some cases elderly. Recent cases of abuse in institutions has also led the government to rehouse people in community supported housing.

Bond proceeds to fuel portfolio growth

Faced with harsher bank lending conditions and lower grants from authorities, GLH has turned to issuing bonds, with a £10m bond in 2013 and the 2014 £11m Retail Charity Bond, which is listed on ORB. The proceeds of the Retail Charity Bond will allow GLH to buy and adapt additional properties. As a charity, GLH cannot list any instruments, so the bond was issued by Retail Charity Bonds and secured on a loan at the same terms to GLH. The Retail Charity Bond has an expected maturity date of 29 July 2021, but this can be extended to 23 July 2023, in which case the rate of interest payable will be increased by 1%.

Solid and stable income stream

GLH has a sound and resilient business model with over 90% of its income coming from rentals. People with learning disabilities are largely insulated from the overall trend to reduction in benefits and tend to be long-term tenants with the majority of those receiving housing benefits opting for direct payment to GLH, implying a low level of bad debt. The income stream is thus very reliable and GLH has been running surpluses since its inception in 1998. Interest coverage has ranged between 2-3x. Net assets to gross property value is 45%. GLH has net assets of £37m of which about half are unrestricted funds.

Issue size **£11m**

Issue date 29 July 2014

Coupon	4.375% semi-annual, fixed
Maturity	29 July 2021

Bond details

Ticker	XS1066485902
Listing	LSE ORB
Net debt (£m) as at 31 March 2014	37

Business description

Golden Lane Housing is the housing arm of disability charity Mencap. Its main activities are the ownership and management of c 700 homes, providing housing for 1,320 tenants with a learning disability in the UK; and providing specialist services to tenants.

Bull

- Resilient and proven business model.
- Strong need and demand for specialist housing.
- Move away from institutions to supported housing.

Bear

- Changes in housing benefit legislation could negatively affect rent.
- Vacant properties could lead to reduction in profitability.
- Bondholders do not have direct recourse to GLH.

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Social impact reporting

Social purpose and context	There are currently 1.5 million people in the UK who have a learning disability, yet only 15% are in secure long-term tenancy or own their own home with the majority receiving no support from health or social care. A significant number of people thus live in unsuitable residential institutions or with elderly parents and carers, and as a result face an uncertain future. Golden Lane Housing, a charity and a wholly-owned subsidiary of Mencap, seeks to provide people with learning disabilities with quality housing, enabling them to have greater independence and more control over their lives. GLH has a £83m property portfolio and has housed over 1,300 people with a wide range of needs over 675 properties across England and Wales. It does so in a number of ways. **Ordinary Houses in Ordinary Streets** involves the purchase of high-quality freehold housing tailored to meet an individual tenant's specific needs. Currently 61% of tenants are housed through this programme and GLH intends to continue to invest in this using the proceeds of the loan. With **Great Tenants** (31% of tenants), GLH rents properties from private sector landlords and sub-lets them to people with a learning disability. **Our House** was launched in 2012 and helps families make long-term plans through the use of legacies and family trusts with GLH managing and maintaining the property. **My Place** is a joint investment in a chosen property by families and individuals alongside GLH.
Who benefits?	The primary beneficiaries are the people with disabilities who move into a new home, and their families.
Activities and Operations	GLH manages and maintains properties for its tenants. The properties are good quality and are located in attractive residential areas, very often close to the existing network (friends, family) of the tenants. GLH purchases or leases a property that meets the needs of tenants, rather than offer empty bedspaces or empty properties to those on a waiting list. GLH also works with Mencap and over 80 other providers to ensure that tenants get adequate and personalized support in all areas of their life, including day-to-day personal care needs, keeping in contact with family and friends, participating in the local community, managing their money, etc.
Stakeholders	Tenants are the primary beneficiary but families and relatives are also important secondary beneficiaries. Commissioners of local and health authorities are important stakeholders as they provide funding but are also interested in good outcomes. Finally, the central government benefits in terms of potential cost savings but also in terms of longer-term care policy and wider social benefit.
Evidencing social value	The impact report is based on the outcomes of the 2013 bond. GLH reports indicators and ways of measuring outcomes for tenants and families. For tenants, examples of outcomes are choice, rights, safety, relationships, emotional, physical and material wellbeing, personal development and community inclusion. For families, outcomes include physical and psychological health. Measurement is done via self-reported data for tenants while data is available for most of the material outcomes for the families. For tenants, the most progress towards achievement of an outcome has been in the areas of rights, safety and emotional well-being. For families, there was a 30% drop in carers reporting pain/discomfort as a result of their family member relocating to a tenancy while the number reporting anxiety/depression dropped by nearly a half after relocation of the tenants.

Source: Edison Investment Research, Golden Lane Housing

Good Energy Group

Utilities

Making energy good

Good Energy is an integrated generation and supply company primarily focused on renewable electricity, and offers gas products as well as feed-in tariff administration services. In our view, the company has a unique strategy and offers an attractive growth profile in renewable generation. Good Energy's supply unit provides a hedge to its upstream assets, but operates in a highly competitive environment.

Customer growth against tough trading conditions

Good Energy's announcement in mid-December revealed tough trading conditions. An exceptionally warm year has reduced demand in its supply business and lower wind speed has limited its generation output. Despite this, electricity customer numbers have increased by 37% y-o-y as at 30 November (+10% since H114) and +85% y-o-y for gas (+20% since H114). Feed-in tariff administration customer numbers have also increased by 26% y-o-y (+11% since H114). For FY14, Good Energy expects PBT of c £2.2m, before a £1m exceptional charge relating to the debt refinancing of Hampole wind farm (following the placement of a new £45m non-recourse debt facility). At H114, Good Energy reported PBT of £0.32m (-73% y-o-y), as a result of warmer weather, its winter price freeze and continued investments. The significant customer growth is due to a combination of high quality customer service as shown by winning the Which? energy company customer satisfaction survey for the last three years, its 100% renewable product offering and competitive pricing. Good Energy sees the supply business as scalable despite the highly competitive landscape and target industry average operating margin of c 4% (although it expects margins to be more volatile due to its smaller size). Following the recent commodity price declines, we expect energy suppliers to pass on some of these falls to end-consumers, increasing price competition within the supply market.

Valuation

Based on Bloomberg consensus forecast, Good Energy's shares currently trade on FY14e P/E of 22.2x, EV/EBITDA of 14.4x and dividend yield of 1.4%. There are no other listed smaller independent energy suppliers in the UK (most of which are privately owned) considered to be a close peer of Good Energy.

Consensus estimates

Year end	Revenue (£m)	PBT (£m)	EPS (p)	DPS (p)	P/E (x)	Yield (%)
12/12	28.2	1.375	13.2	3.0	19.0	1.2
12/13	40.4	3.255	20.9	3.3	12.0	1.3
12/14e	52.6	2.205	11.3	3.6	22.2	1.4
12/15e	63.8	2.220	11.9	3.9	21.1	1.6

Source: Good Energy Accounts, Bloomberg

Price*	**251p**
Market cap	**£37m**

*Priced as at 13 January 2015

Share price graph

Share details

Ticker	GOOD
Listing	AIM
Shares outstanding	14.668m
Net debt (£m) as at 30 June 2014	28.4

Business description

Good Energy is an integrated renewable generation and supply company, which supplies gas, electricity and feed-in tariff administration services to over 147,500 domestic and commercial customers. The company has 25MW of operational renewable generation capacity and has a pipeline of 116MW.

Bull

- Unique sales strategy, focusing exclusively on the supply of renewable electricity.
- Significant growth opportunities in renewables, supported by visible government energy policy.
- Integrated generation and supply model provides partial hedge.

Bear

- Lack of economies of scale (eg in operational infrastructure) to compete with the 'big six' energy suppliers in the UK.
- Market share wins at the cost of margins.
- An increase in price competition in the supply market and lower forward power prices (for generation assets) due to a recent fall in oil and gas prices.

Analysts

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Social impact reporting

Social purpose and context	The electricity supply sector is the largest single contributor to UK carbon emissions, accounting for more than 38%. Good Energy aims to provide consumers with an active role in addressing climate change by offering retail and business consumers the chance to switch their energy supply to renewable electricity. The company also supports decentralised generation, where power is generated at home and in communities, ultimately strengthening long-term security of supply, reducing carbon emissions and improving efficiencies. Good Energy continues to invest in new renewable electricity capacity in the UK, which reduces the UK's reliance on fossil fuel. The company aims to deliver 50% of its customers' electricity needs from its own portfolio of wind, solar and small hydro generation assets by 2016.
Who benefits?	The environment is the ultimate beneficiary of Good Energy's work. By contributing to the UK government's renewable target to reduce greenhouse gas emissions by 80% by 2050 from 1990 baseline levels, Good Energy ensures an increase in the overall amount of renewable electricity generated and thereby reduces the adverse impact of climate change. Customers and the UK government benefit from the company's strategy, through a decentralised generation portfolio that improves security of supply and reliability. Decentralised generation also improves the UK's long-term energy security through increased energy self-sufficiency and reduced reliance on imported fossil fuels. Good Energy provides support services for the UK's small and medium-scale renewable electricity generators. Many of these are micro-generators, using renewable technology to meet either all or part of their electricity needs. Around 70% of the company's power is sourced from medium-scale renewable generators that are typically businesses, social housing or community organisations, which bring wider systemic benefits.
Activities and operations	Good Energy is an integrated renewable generation and supply company, which supplies electricity to more than 50,500 domestic and commercial customers and gas to around 24,000 customers. The company also has 73,000 small and medium-scale renewable generation customers, where it helps to provide administration services to feed-in tariff customers. Good Energy has 24.7MW of operational renewable generation capacity and a pipeline of 116MW. All Good Energy's operations and assets are based in the UK.
Stakeholders	Good Energy's business involves a variety of stakeholders including individuals, local communities, organisations and, ultimately, the environment. By helping consumers to become more engaged with their energy use and the sources of generation, the company and consumers are taking a collaborative approach to reducing emissions. Good Energy sources the majority of its electricity from over 800 independent renewable electricity generators, many of which are owned by private businesses and local communities. Employees are also an integral part of Good Energy's strategy and are fully engaged when formalising ethical and social impact policy. Investors are stakeholders and can be institutional and/or customer shareholders. Good Energy is also contributing to the UK government's CO_2 emission reduction targets. Lastly, the national electricity grid and local distribution networks are stakeholders in Good Energy's business, as they deliver energy to end-consumers.
Evidencing social value	Good Energy has delivered and continues to enhance social values. Through its work, the company is increasing the use of renewable energy in the UK to help reduce its CO_2 emissions; increasing in the number of homes, businesses and communities generating their own electricity using renewable technology; enhancing awareness of energy efficiency and the environment; and delivering new investment in UK renewable electricity projects to deliver greater energy security and self-sufficiency.

Source: Good Energy, Social Stock Exchange, Edison Investment Research

EDISON

HaloSource

Environmental engineering

Making water better

HaloSource has developed patented technologies for removing bacteria, viruses, sediments and harmful contaminants from water. It is exploiting this IP by providing innovative chemistry to a select network of prestigious partners in the Americas, Europe, Asia and Australia, which deploy it in solutions for end-users, as well as acting as distributors.

Growing by strengthening the distribution network

HaloSource is growing by developing strong relationships with strategic partners that have expertise, market credibility, brands and channel access. H114 revenue growth benefited from partnership deals completed during FY13. This upward trend is set to continue. In July 2014 it announced a strategic partnership with Rain for Rent to provide construction companies in the US with complete water management solutions. In September 2014 HaloSource announced that Jarden Consumer Solutions was about to launch a line of Oster-branded drinking water pitchers in Chile, Peru and Colombia, the first commercial deployment of its HaloPure disinfection technology in Latin America. The company also announced that Fluidra, Europe’s largest distributor of pool and spa products, would offer products containing HaloSource’s SeaKlear pool and spa chemistry.

Partnerships helped deliver H114 revenue growth

Drinking Water revenue (27% of total) more than doubled year-on-year driven by growth in China, where its partner Perfect, the country’s largest direct selling organisation, took delivery of 370,000 HaloPure disinfection cartridges over a 12-month period as part of its launch of a new pressure-fed water purification device. Environmental Water revenues (16% of total) rose by 29% as HaloSource focused on the North American mining and construction sectors with partners such as Nalco and Stormtec respectively. Recreational Water revenues (55% of total) grew by only 1% because of the prolonged US winter, which affected spring pool openings. Total HaloSource revenues rose by 24% y-o-y to $7.3m, while operating losses fell from $6.9m to $5.5m, reflecting higher revenues, an improvement in gross margin and lower operating costs. Net cash (excluding restricted cash) reduced by $4.4m to $5.6m at end June 2014. The balance sheet was strengthened in November through a placing raising £7m (gross) at 11p/share.

Valuation: Still at pre-profits phase

As HaloSource is still at the pre-profits stage of evolution, it is premature to attempt to form a meaningful valuation based on comparative multiples.

Consensus estimates

Year end	Revenue (US$m)	PBT (US$m)	EPS (US$)	DPS (US$)	P/E (x)	Yield (%)
12/12	13.3	(12.4)	(0.14)	0.0	N/A	N/A
12/13	16.1	(12.4)	(0.08)	0.0	N/A	N/A
12/14e	20.7	(7.6)	(0.05)	0.0	N/A	N/A
12/15e	26.3	(4.4)	(0.02)	0.0	N/A	N/A

Source: HaloSource, Liberum

Price*	17.1p
Market cap	£38m

*Priced as at 13 January 2015

Share price graph

Share details

Ticker	HALO
Listing	AIM
Shares outstanding	220.2m
Net cash (US$m) as at June 2014 (excluding $1.6m restricted cash)	5.6

Business description

HaloSource uses patented chemistry to develop products that improve water quality. Applications are used globally to purify drinking water, reduce the sediment in run-off water from construction sites to environmentally acceptable levels and improve the quality of water in swimming pools and hot tubs.

Bull

- Around one billion people worldwide lack access to clean water (source: World Health Organisation).
- Products for disinfecting drinking water have been approved by government authorities in the US, China and Brazil.
- Regulations on discharge of pollutants into watercourses are becoming more stringent.

Bear

- Consumers in areas with inadequate infrastructure to provide drinking water typically have very low disposable incomes.
- Utilises partners to market and sell product.
- Consumers may not recognise the benefits of using HaloSource’s alternative water treatments.

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Social impact reporting

Social purpose and context	HaloSource aims to improve the lives of people worldwide by designing innovative products that remove bacteria, viruses, sediments and contaminants from water through its HaloPure chemistry. This deploys chemically modified, brominated polymer beads in a cartridge format, which provides a rapid single pass kill of 99.9999% of water-borne bacteria and 99.99% of water-borne viruses (US EPA drinking water standards) with no harmful by-products when used in a properly designed water purification system. The HaloPure products are typically standalone units or pitchers and are gravity fed, requiring no access to either piped water or electricity. Competitive devices typically use chlorine tablets, which require far longer kill times and subsequent removal of the chlorine, silver particles that are far less effective regarding kill capacity and time or some form of filtration ranging from ceramic candles to ultra-filter membranes, which often experience blockage because of the presence of high levels of particulates in the input water. The company is currently developing a new, patent-protected medium to remove dissolved contaminants such as lead salts, arsenic and selenium for drinking water and industrial outflow applications. HaloKlear products are combinations of naturally occurring and less toxic biopolymers, which are used to remove sediment and suspended contaminants in industrial applications such as storm water run-off, construction sites and some mining and oil or gas applications. They allow the operator to recycle or discharge cleaned effluent safely into nearby watercourses without adverse effects on aquatic and plant life. Competitive treatments are based on synthetic chemicals such as alum, polyacrylamide or polyaluminium chloride that can have negative environmental or health impacts. SeaKlear products are used to improve the quality of water in swimming pools and hot tubs. The core chemistry is based on a natural bio-polymer derived from recycled crab shells used to remove particulates and produce sparkling water. The SeaKlear range also includes precipitating agents for phosphate control and algaecides to kill or prevent algal growth and subsequent water discoloration and cloudiness. SeaKlear chemicals are sold through retail outlets focused on pool and spa maintenance or service providers that take care of domestic and commercial pools in North America.
Who benefits?	HaloSource's products help reduce the levels of sediment in construction site run-off, preserving the environment and enabling site operators to be compliant with environmental regulations. When applied to the slurry resulting from the use of high-pressure water to bore tunnels, it enables the water to be reused, thus reducing water consumption. The products give people in regions with poorly developed infrastructure access to drinking water in a cost-effective manner. SeaKlear products help improve the clarity of pool water, which is instrumental in reducing mortalities from drowning.
Activities and operations	HaloSource is headquartered near Seattle, US, with ancillary operations in Shanghai, China, and Bangalore, India. It sells technology and products in Asia-Pacific, the Americas, Europe and the US through a network of partners that market and distribute its technology into local channels. As noted, these include Perfect in China, Fluidra in Europe and Australia, Jarden Consumer Solutions in Latin America and Eureka Forbes in India.
Stakeholders	Stakeholders include investors, employees, partners (see Activities and operations above) and families and communities. These benefit from access to clean drinking water and unpolluted watercourses. Additionally, SeaKlear products improve the clarity of pool water, thus eliminating turbidity, the most significant factor contributing to drowning accidents. Regulatory bodies are the Water Quality Association, National Institute of Metrology, Quality and Technology in Brazil, Ministry of Health of the People's Republic of China, US Environmental Protection Agency (EPA) and NSF International. NGOs and not-for-profit organisations: HaloSource is working with Eureka Forbes, Wishing Well International Foundation and A Barefoot Mile Foundation to provide clean drinking water to disadvantaged communities.
Evidencing social value	In 2013 HaloSource shipped 550,000 water purification cartridges, representing 412 million person days of clean water and in 2014 is expected to have supplied clean drinking water to 10 million people daily in markets served by its partners. In the Industrial sector HaloKlear treated almost 1tn litres of contaminated water.

Source: Halosource, Edison Investment Research

EDISON

ITM Power

Renewable energy equipment

Proven hydrogen energy solutions

ITM Power's proven hydrogen generation systems are being deployed in commercial-scale grid balancing and energy storage applications and in rapid refuelling stations for fuel cell powered vehicles.

FY14: A landmark year for ITM Power

During FY14 ITM Power built, CE marked, commissioned and achieved a permit to operate the world's largest commercial-scale PEM (proton exchange membrane/polymer electrolyte membrane) electrolyser near Frankfurt. This demonstrates the company's technology and project management capability and provides a major reference plant with the Thüga Group, the largest utility grouping in the world. After a year of injecting hydrogen into the German gas network (ITM is the only PEM electrolyser to have done so) in November the electrolyser was formally assessed as suitable for providing grid-balancing services. ITM also worked on three large-scale refuelling stations for delivery by the end of FY15, including one destined for Hyundai's headquarters in California. These contracts have been followed with one worth around £2.8m to supply three of its electrolyser-based refuelling stations for deployment in London as part of a EU funded project; one worth US$2.1m to supply a second hydrogen refuelling station to California; and one to supply a power-to-gas system to RWE Deutschland. In early January ITM had £8.7m of projects under contract, £0.8m in the final stages of negotiation.

Strong revenue growth during FY14

Total project income doubled year-on-year £3.1m, of which £2.0m related to grants. Losses before tax widened because of the increase in business development activity and high levels of NRE expenditure on the Frankfurt project. It is not likely that similar levels of costs will be incurred for future projects as they will use the same technology. Net cash burn totalled £7.6m. £12.0m net was raised through two placings. Having established routes to market in the key power-to-gas energy storage and clean fuel sectors, management focus has turned to product scale-up and product cost reduction through both design improvements and supply chain efficiencies. This is expected to help drive improvements in gross margin.

Valuation: Still at pre-profits phase

As ITM Power is still at the pre-profits stage of evolution, it is premature to attempt to form a meaningful valuation based on comparative multiples.

Consensus estimates

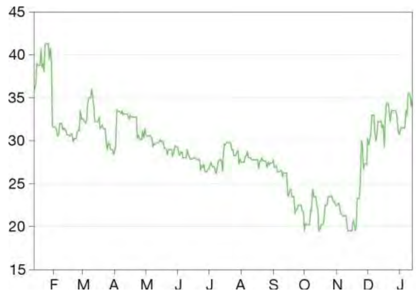
Year end	Revenue (£m)	PBT (£m)	EPS (p)	DPS (p)	P/E (x)	Yield (%)
04/13	0.1	(6.2)	(4.9)	0.0	N/A	N/A
04/14	1.1	(8.0)	(5.9)	0.0	N/A	N/A
04/15e	6.2	(4.3)	(2.5)	0.0	N/A	N/A
04/16e	10.6	(1.8)	(1.0)	0.0	N/A	N/A

Source: Bloomberg

Price*	**35.3p**
Market cap	**£57m**

*Priced as at 13 January 2015

Share price graph



Share details

Ticker	ITM
Listing	AIM
Shares outstanding	161.9m
Net cash (£m) as at April 2014	9.8

Business description

ITM Power offers large-scale integrated, rapid response hydrogen energy solutions incorporating patented technology. Its PEM electrolyser systems use renewable energy to generate hydrogen from water. These are complemented with hydrogen storage and dispensing systems.

Bull

- Energy storage provision has started to become a mandatory requirement in areas such as California. It is a prerequisite for significant renewable energy deployment.
- Production of hydrogen fuel cell cars has begun.
- Air quality regulations are stimulating demand for hydrogen as an NO_x and SO_x emission-free fuel in cities.

Bear

- Demand for products dependent on government energy policies. This risk is reduced by operating in multiple geographies.
- Long sales cycle. This risk has been reduced by broadening the sales pipeline.
- Potential sales volatility from working on a relatively small number of large projects.

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Social impact reporting

Social purpose and context	ITM Power's systems could provide the missing link in the adoption of renewable energy systems and non-polluting transport. Its electrolysers use surplus power generated by renewable sources to generate hydrogen fuel from water. This hydrogen is then injected into a gas network, from which gas is removed at a later time to generate electricity when solar or wind generation is insufficient to meet demand, ie in a gas-to-power application or to produce heat. This means that energy produced by wind and solar sources which is surplus to demand may be stored for future use rather than wasted. Alternatively the hydrogen may be dispensed via a refuelling pump to a car, bus or boat propelled by a small fuel cell. These vehicles do not emit SO_x or NO_x pollutants. The technology therefore has the potential to accelerate adoption of renewable energy in the utilities and transportation sectors. In addition, the hydrogen generated may be used longer term to synthesise ammonia and urea fertiliser. Unlike conventional processes for synthesising fertiliser, which release free CO_2, the process captures the carbon in the urea molecules themselves.
Who benefits?	Nation states without their own fossil fuels that are turning to renewable energy sources to improve energy security. Energy generators and distributors that are under pressure to switch to renewable energy sources yet need to be able to provide a dependable supply of electricity. Individual operations and local communities who are interested in generating energy locally from renewable sources yet need a dependable supply of electricity. Individuals and communities will potentially benefit from lower air-borne pollutants if electric cars powered by fuel cells using hydrogen generated from renewable energy are deployed.
Activities and operations	ITM Power offers large-scale, high pressure integrated hydrogen energy solutions. These are based on its proprietary PEM (proton exchange membrane/polymer electrolyte membrane) electrolyser stacks. The patented technology gives 72% conversion efficiency in a compact format, which may be scaled up for deployment in large-scale projects. The company is based in Sheffield, where it has over 70 employees and has a presence in the US and Germany.
Stakeholders	Nation states, energy generators and distributors, individual operations (eg hotels/hospitals), local communities and individuals (see above) Employees Shareholders Project partners and research bodies, eg Thüga Group, NRM, AMEC, Shell, SSE and National Grid, California Energy Commission, German Energy Agency, North Sea Power-to-Gas Consortium and Mediterranean Power-to-Gas Consortium.
Evidencing social value	The hydrogen production capacity deployed under contract is expected to be 1,000kg/24 hours by the end of April 2015, around 20% of which will relate to refuelling stations. For every 1,000kg of hydrogen used as a substitute for petrol or diesel, there is a reduction of 10.4 tonnes of CO_2 emissions.

Source: ITM Power, Edison Investment Research

EDISON

Places for People

Not-for-dividend

Building affordable housing

Places for People (PfP) is a not-for-dividend company whose core activity is providing affordable homes. In recent years, it has added commercial contracting businesses with stable, strong cash flows to help deliver on its agenda as government funding continues to decline. The gap between supply and demand of new homes remains high, implying good growth prospects. The balance sheet is quite strong and PfP has a credit rating of A2 from Moody's and A+ from S&P, both with a stable outlook. PfP has a £40m 1% RPI-linked bond due in 2022 and a £140m 5% bond due in 2016 listed on the ORB.

Affordable housing and more

PfP provides a range of housing options from affordable rent, midmarket rent, shared ownership, private renting to homeownership. Affordable housing is still the core business (49% of revenues), but PfP has been building up market rent activities and has also acquired a number of contracting businesses. The most important is leisure facilities management (21% of revenues), which has long-term contracts (in excess of 10 years) with local authorities and is proving also to be an interesting distribution platform, providing leads to potential regeneration projects. The contracting businesses are stable and deliver strong cash flows.

Focus on efficiency

Growth, both organic and more recently with the acquisition of contracting businesses, has been strong. The prospect for additional growth is good too given PfP's efforts to help meet the gap between housing demand and supply. It has so far been relatively unaffected by welfare reform. Arrears and bad debt metrics have all improved. PfP is also taking action to inform and prepare tenants about future changes, for instance benefits being paid directly into a bank account. Currently, 64% of tenants pay their rent via direct debit and this could increase further. Management is also focused on increasing efficiencies and this has led to the surplus per property before depreciation increasing from £2,282 in 2011/12 to £2,842 in 2013/14 while the pre-tax margin has gone from 4.7% to 5.8%.

Diversification of funding through bonds

Decreasing availability of grants has pushed PfP to diversify its funding sources, notably with the issuance of a €40m bond and the two retail bonds featured above. It maintains minimal cash but ensures that sufficient committed loan facilities are available and immediately accessible to finance a minimum of one year's cash flow. Net debt to gross property value is at a reasonable 55% and EBITDA / net interest is at 1.5x. 85% of the loan book is at fixed interest rates and a further 2% is hedged.

Issue sizes **£40m**
£140m

Issue date 26 January 2012

Coupon	1% semi-annual, variable
Maturity	31 January 2022

Bond details

Tickers	XS0731910765 XS0635014177
Listing	ORB LSE
Net debt (£bn) as at 31 March 2014	1.6

Business description

Places for People is one of the UK's leading property management, development and regeneration companies, owning or managing over 148,000 properties and providing services to over 400,000 people. It has assets in excess of £3bn.

Bull

- Continued growth in the rent market opens up new business and investment opportunities
- Focus on efficient allocation of resources
- Contracting businesses generate strong cash flows, enabling investments

Bear

- Welfare reform can affect the way rental payments are received from customers
- Capital grant reductions imply need for new sources of financing
- Portion of development risk that is not shared with JV specialist construction partners

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Social impact reporting

Social purpose and context	Places for People's main purpose is to provide people with affordable and secure homes. Investing in the community is an important part of this. Places for People thus looks at what one needs to thrive, ie schools, shops, leisure facilities, job opportunities, access to training, etc. It has a strong track record of large scale regeneration of towns and cities. This holistic approach helps people sustain their tenancy and be economically active, leading to successful places which ultimately are easier and cheaper to manage.
Who benefits?	Customers seeking to access affordable housing are beneficiaries of Places for People through the products and services it develops to help people access homeownership or rent a property. Neighbourhoods are also beneficiaries since Place for People produces an action plan focused on physical, economic, environmental and social improvements for the area. Young people living in these localities benefit from programmes offering personal and skills development opportunities as well as training and employment support.
Activities and operations	Places for People aims to achieve the following outcomes. **Sustaining tenancies**: helping people to manage their tenancy successfully. Stable tenancies contribute both to the physical standard of properties and also to the cohesion of the community. Examples of indicators to measure this include the amount of income generated for customers by the Money Advice Team and the percentage of tenancy turnover. **New places**: building and developing new housing and community schemes to a high standard that can support modern facilities and provide economical comfort with reduced environmental impact. This can be measured with the following indicators: number of build completions and percentage of new homes built to the Code for Sustainable Homes Level 3 or above. **Renewal and regeneration**: Places for People also renews and regenerates existing schemes and neighbourhoods. This can be measured with the following indicators: number of new business start-ups supported, number of people supported into work, training or education, CO2 savings as a result of environmental retrofitting to existing homes. **Maintenance levels**: planned maintenance is necessary in order to ensure homes meet quality standards. The most relevant indicator is the percentage of homes that meet the Decent Homes Standard.
Stakeholders	In addition to the beneficiaries (customers, neighbourhoods and young people), Places for People also identifies as stakeholders staff, suppliers, the environment and policy-makers.
Evidencing social value	A few examples of outcomes achieved (numbers are for 2011/12, 2012/13, 2013/14 and the target for 2014/2015): **Sustaining tenancies** – amount of income generated for customers by the Money Advice Team: £361,969, £370,377; £454,852 and £475,000. **New places** – 638, 338, 498, and 500. **Renewal and regeneration** – number of business start-ups supported: 117, 12 new and 140 existing, 54 new and 290 existing, 75 new and 100 existing. **Maintenance levels** – % of homes meeting Decent Home Standards: 100%, 100%, 100%, 100%.

Source: Edison Investment Research, Places for People

EDISON

Primary Health Properties

Secure income

Primary Health Properties (PHP) offers a prospective yield of 5.3%, driven off a portfolio of primary healthcare facilities on long leases, effectively fully occupied, with 91% of rents paid directly or indirectly by the UK government. Dividend policy is progressive, supported by asset growth (locking in the spread between asset yields and funding costs), asset management and rental growth.

Attractive growth market

PHP has a 20-year track record of investing in the primary care sector, working with developers, GP groups and the NHS to develop modern, high-quality facilities, with space and design specifications to meet the changing needs of the sector. The recently released NHS England five-year plan underlines the increasing role of primary care, driving healthcare services into local communities where they can be delivered more efficiently. Much of the existing NHS GP estate is inadequate and private sector investors (like PHP, which only invests in modern, purpose-built assets) will be needed to provide the investment capital required for modernisation. An ageing and growing population gives added significance to the issue.

Earnings growing to increase dividend cover

In November, PHP issued an IMS covering the trading period to 10 November, which indicated continued earnings growth driven by portfolio expansion, rental growth, management cost savings and lower funding costs. With earnings growth, dividend cover has continued to rebuild, and although asset growth (of c £50m ytd) is below management's c £100m pa target, this is likely to be no more than a timing effect given the strong pipeline of medical centres in solicitors' hands or with terms agreed with vendors. PHP's portfolio now comprises 267 assets (including five under construction), with a value of just over £1bn. The weighted average unexpired lease term was 16 years and occupancy was 99.7%. Rental growth for the 10 months to the IMS date was 1.9%. Debt refinancing has continued, expanding the size and duration of facilities and lowering the average cost.

Valuation: Attractive and dependable yield

PHP's secure and growing cash flows and yield are the key attraction of the shares. 19.5p per share of dividends have been paid for the 2014 year, and with a progressive dividend policy we expect 20.0p for 2015, making a prospective yield of 5.3%. We forecast full dividend cover by H216. Asset backing is strong, and the 2014e price to EPRA NAV per share is 1.2x.

Edison estimates

Year end	Revenue (£m)	PBT (£m)	EPS (p)	DPS (p)	P/E (x)	Yield (%)
12/12	33.2	7.4	10.2	18.5	36.4	5.0
12/13	42.0	9.5	10.6	19.0	35.0	5.1
12/14e	59.6	16.5	14.8	19.5	25.1	5.3
12/15e	66.7	20.5	18.4	20.0	20.2	5.4

Source: Company accounts, Edison Investment Research

Real estate

Price*	**371.3p**
Market cap	**£413m**

*Priced as at 13 January 2015

Share price graph

Share details

Ticker	PHP
Listing	LSE
Shares outstanding	111.3m
Net debt (£m) as at 30 June 2014	619

Business description

Primary Health Properties invests in primary healthcare property in the UK, principally let long term to GPs and NHS organisations backed by the UK government. This tenant profile provides an exceptionally secure rental outlook.

Bull

- Low-risk business model with growth.
- Positive spread between asset yields and funding costs.
- Good cost control.

Bear

- NHS reforms still weighing on new building.
- Increased competition for properties from institutional investors.
- High payout requires part-equity funding for growth.

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Primary Health Properties is a research client of Edison Investment Research Limited

EDISON

Social impact reporting

Social purpose and context	PHP's aim is to modernise the facilities available to GPs and improve their ability to provide efficient and effective healthcare in the UK, and improve patient access to these services. To this end, it invests in and manages modern, purpose-built properties, let to the NHS and located in residential communities. As well as meeting existing NHS requirements, PHP is committed to ensuring that its properties provide the flexibility for future change, update and expansion as healthcare services continue to evolve. The need for modern, specialised, fit-for-purpose premises from which primary care and ancillary services can be efficiently delivered has been increasing and seems likely to continue to do so. The NHS model has for some time revolved around GPs as the gatekeepers to specialist services located in large centralised hospitals. Technological and therapeutic enhancements provide the context for a greater range of treatments, procedures and diagnostics to be performed in local community primary care settings. This improves patient access and choice, and ameliorates budgetary pressure on the NHS (likely to increase further with an ageing population) by reducing costs and reducing efficiency. While PHP only invests in modern, purpose-built properties, much of the wider NHS primary care estate remains out of date with inadequate facilities to meet these changing healthcare needs. Research by GP magazine (January 2013) showed that 57% of GP partnerships believed their premises to be in need of improvement. The situation is unlikely to have changed for the better since. PHP's assets are specifically designed to facilitate the movement of primary care services from often cramped, dated and energy-inefficient properties into new purpose-built units. These new properties are more conveniently located, easier to access for patients with all levels of mobility, and capable of delivering a wider range of healthcare and related services.
Who benefits?	PHP's 262 completed medical centres serve c 2.6 million registered patients. These are a mixture of the healthy and unhealthy. The healthy are often seeking preventative measures and advice, while among the unhealthy, modern purpose-built centres can provide a broader range of treatments, previously only delivered in hospitals. GPs, clinicians, healthcare professionals and pharmacies are able to offer a fuller range of services from premises capable of housing modern technology that can further enhance their services. They can work more efficiently in an environment that can improve their own well-being. Cost efficiency supports the wider NHS.
Activities and operations	PHP performs two key activities as part of the provision of modern purpose-built medical centres. As well as investment in modern, often new, purpose-built medical centres, PHP provides asset and property management of existing centres.
Stakeholders	PHP considers all of the various stakeholders when making management and investment decisions. It identifies patients (and their carers), the NHS and healthcare professionals, and capital providers (investors and lenders) as the key stakeholder groups.
Evidencing social value	During the past reporting year, PHP increased the total area occupied by NHS tenants and the number of patients registered with PHP-owned medical centres. The number of medical centres with onsite pharmacies also increased. Every medical centre was visited by PHP management during the year and 88% of all newly completed centres had an Energy Performance Certificate rating of C or better. In the coming year PHP plans to implement direct patient/GP feedback surveys to enhance impact monitoring.

Source: PHP Impact Report 2014, Edison Investment Research

EDISON

Scope

Charity

Changing society

Scope is facing a dynamic environment with changes in policy, cuts in public spending and increased focus on independent living. Fees are under pressure, in part due to the closure of residential care homes. Scope is intent on increasing voluntary income, ie donations. Income from its retail operation and the £2m social investment bond enabled it to do so by investing in fund-raising and retail shops. The bond is due for repayment in May 2015. Scope posted a slight deficit in the year to March 31 2014, but its overall financial situation is quite solid, implying that the outlook for the repayment of the bond in May 2015 is good.

Changing environment leads to pressure on fees

61% of Scope's income comes from fees paid by local authorities and health bodies for services to disabled people. Austerity, a move away from contracts with a local authority to dealing directly with individuals and a greater focus (fully supported by Scope) on living independently is putting pressure on these fees and is causing Scope to adapt its structures. Going forward, it will increase its focus on information and support services and awareness programmes, which are typically funded though fund-raising (17% of income) and through its chain of retail charity shops (22%).

Bond helps generate long-term sources of income

The first £2m tranche of a £20m note programme enabled Scope to invest in a supporter acquisition programme (donors) and to support its retail expansion. Since the bond was issued, Scope has increased the number of regular supporters by 64,000 with additional income each month of about £200,000. It must be noted that this was not only the result of the bond, since Scope spent a total of £2.5m on these activities. During that period, Scope also increased its retail shops by 18 to 253, which should lead to an additional yearly surplus of around £273,000 for 2014/2015.

Financial situation is quite solid

Scope posted a deficit of £0.7m on income of £102.6m in 2013/14, reflecting fee pressure and fund-raising costs. Typically, it seeks to ensure that costs do not exceed income. The balance sheet is quite strong, with net assets of £30.5m, of which £24.7m is in unrestricted funds and a net debt/gross property value of 14%. Scope has £1.7m cash and realisable investments of £9m. The repayment of the bond could also be done via asset sales.

Issue size	£2m
	Issue date 31 May 2012
Coupon	2% semi-annual, fixed
Maturity	31 May 2015

Bond details

Ticker	XS0780393
Listing	Euro MTF
Net debt (£m) as at 31 March 2014	5.78

Business description

Scope is a charity that exists to make the UK a place where disabled people have the same opportunities as everyone else. It provides support and information to disabled people and their families as well as residential and domiciliary services, education and employment based services..

Bull

- Increasing unrestricted funding.
- Strong financial position.
- Raising Scope's own awareness should help fund-raising.

Bear

- Cuts in public spending.
- Economic climate can affect donations and retail revenues.
- Move towards payment by results/outcomes-based commissioning; move by local authorities away from bulk purchasing of services towards direct payments and individual budgets.

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Social impact reporting

Social purpose and context	In the UK, there are more than 11 million disabled people. One in 15 families with dependent children has a disabled child. They face difficulty getting the support and help they need. Scope's mission is to provide services to disabled children and adults, seeking to provide them with the same opportunities as everyone else. Scope offers practical information, advice and support, particularly at the time of diagnosis and in a child's early years, to more than a quarter of a million disabled people and their families every year. It does so via befriending platforms such as Face 2 Face and helplines. It also runs schools, provides work coaching and support in finding a job, as well as residential care and supported living. Scope also seeks to increase awareness of the issues disabled people and their families face as well as influencing decision makers. Scope's works focuses on six strategic themes: fulfilling family lives, living independently in the community, learning and skills, work and volunteering, financial well-being and disabled leaders and role models.
Who benefits?	The primary beneficiaries are disabled people and their families.
Activities and operations	Scope seeks to intervene before and during periods of transition or crisis in the lives of its beneficiaries and only for as long as it adds value. Scope's activities are focused around its six strategic themes. **Fulfilling family lives:** Scope helps families by enabling them to have support and advice in their local community, notably by providing free befriending and mentoring services. **Living independently in the community:** Scope seeks to ensure that disabled people can live independently in a home and in a location of their choosing and afford the care and support they need. Scope will thus continue to change its service offering towards more supported living and seek to ensure that the government commits additional funding to social care. **Learning and skills:** Scope will also focus on making good-quality mainstream education accessible to more children, helping teachers and educators be more confident and enabling non-disabled children to understand disability. **Work and volunteering:** Scope seeks to find work and volunteering opportunities that are both meaningful and sustainable, as well as pushing for more support to get disabled people into work. **Financial well-being:** Scope works on increasing disabled people's financial capability and confidence and increasing public awareness of the unfair extra costs they face. **Disabled leaders and role models:** the goal here is to increase the visibility of disabled people in a variety of environments, as well as raising awareness of Scope as a disability organisation and challenging perceptions about disability.
Stakeholders	Beneficiaries and families are key stakeholders. Others include Disabled People's Organisations and other similar disability organisations working with Scope to build capacity and deliver joint products and services. Scope also works with the government and other decision makers to ensure the best outcomes for disabled people and with local authorities that commission and fund many of the services provided by Scope. Other stakeholders include supporters, volunteers, investors, regulatory and trade bodies, as well as the general public.
Evidencing social value	Here are a few examples of outcomes. **Fulfilling family lives:** 350 children and their families were involved in community short breaks; 497 families were supported through a befriending service. **Learning and skills:** 120 disabled people attended Scope's schools; 91,467 unique page views on online *Learning together* toolkit enabling teachers to include disabled people. **Work and volunteering:** 61 disabled people start the Work Choice programme each month; 12 people found sustaining unsupported employment for six months or more.

Source: Edison Investment Research, Scope

EDISON

V22

General retailers

London-based art portfolio

V22 is an enterprise that showcases the wealth of talent in contemporary art. It has built a broad portfolio of around 150 artworks of living artists from around the world, paying in a mix of cash and shares (or non-lettable workspace). As a portfolio manager, it continues to acquire art works and in November 2013 made its first disposal, realising a profit. V22's operating subsidiary, V22 London, manages studio space – let to artists at affordable rents, which forms the bulk of the group's income.

Vibrant British art environment

The contemporary art market is very vibrant and the British market is particularly high profile globally, with investors keen to broaden asset classes within their portfolios, as well as taking an interest in the career development of the originating artists. Seven of the top 50 bestselling living artists at auction in 2014 have been British (source: Artnet analytics). V22 has been established in a way that enables artists to retain an interest in their earlier works and encourages a broader spread of investors. It also works to break down barriers that may exist between artists and the communities in which their studios are based by encouraging events and workshops that bring people together.

London studio property market strained

The group's intent is to provide long-term studio accommodation and it manages property in Dalston, Forest Hill, Bermondsey, Peckham, Homerton and Lewisham. Notice was served on its Bermondsey lease in March and tenants were required to leave earlier than originally anticipated, causing considerable upheaval functionally and financially. Since end June the situation has eased and property interests were again breaking even. Artists are often among the first to move into run-down areas with low rents and their presence can presage regeneration, which then prices them out of the local market. V22 may look to buy or take longer leases on suitable properties to provide greater visibility both for artists and its own income stream.

Valuation: Well below potential value of collection

Current year profits will be affected by the property issue, which led to a loss being reported for the first half. The group's published net asset value at end June was 0.97p, but this reflects the collection at cost and does not reflect the latest portfolio valuation, which was as at 31 December 2013. Including this, the adjusted NAV stands at 4.03p, considerably above the current share price.

Historical financials

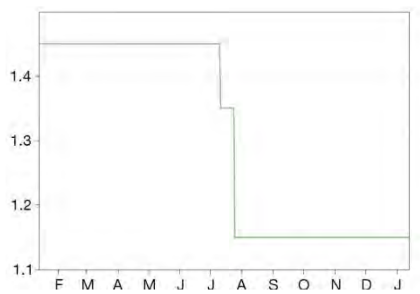
Year end	Revenue (£000s)	PBT (£000s)	EPS (p)	DPS (p)	P/E (x)	Yield (%)
12/10	1.9	(69.0)	(0.30)	0.00	N/A	N/A
12/11	34.8	(132.9)	(0.57)	0.00	N/A	N/A
12/12	17.1	129.1	0.53	0.00	2.2	N/A
12/13	51.8	142.5	0.55	0.00	2.1	N/A

Source: Company accounts

Price*	1.15p
Market cap	£0.40m

*Priced as at 13 January 2015

Share price graph



Share details

Ticker	V220
Listing	ISDX
Shares outstanding	29.4m
Net cash (£000s) as at end June 2014	12

Business description

V22 invests and trades in contemporary art and provides specialist services (including the provision of studio space) to the London art market.

Bull

- Growing art collection.
- Scarcity value of alternative collective vehicles.
- Property rental income.

Bear

- Upheaval in property portfolio.
- Risk in identifying commercial artists.
- Dilution from share issuance.

Analysts

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Social impact reporting

Social purpose and context	V22 was established to support the creation of high-quality contemporary art and share the ownership of contemporary art across a far wider social and economic base than has historically been the case. The group aims to support artists by providing studio space at affordable rents and by involving them in a more cohesive and co-operative group via their mutual ownership of V22, alongside external investors. The structure also enables the artists to spread their risk through building a portfolio of work and to benefit from any investment gains. By bringing together work from various artists and by bringing the artists themselves together in buildings housing multiple studios, the group has a resource which can be leveraged for public and community events and education.
Who benefits?	The key beneficiaries of V22 are the contributing artists, those who participate in wider exhibitions and those who use the studios. Alongside the artists, the investor-patrons who support their endeavours benefit from having greater involvement from the creative community and the fulfilment of having assisted the creative process, as well as the possibility of borrowing works (under supervision). Local communities and the general public benefit from attending exhibitions and participating in workshops.
Activities and operations	V22's activities and operations are integral to its social purpose and context. The purchase of artworks for a mix of shares and cash enables artists to monetise their efforts and leverage the benefits of the professional network of artists and supporters who form the collective. It gives them the opportunity to raise their profile through exhibitions and, for some, gives the opportunity to rent suitable studio space at affordable rental values. The assembly and curacy of the collection adds value, while enabling the contributing artists to maintain a degree of control. From the investing patrons' perspective, their risk is spread across a portfolio rather than being concentrated on any particular individual artist at the start of their career. In the broader community, the public can gain from access to events, workshops and exhibitions and local areas can gain from the vibrancy of the artistic communities and the bringing back into use of redundant buildings.
Stakeholders	V22 has both internal and external stakeholders, but those with most investment (financial or otherwise) are the artist community. These may be artists with works in the collection or tenants of the studio spaces. Within the V22 arrangement, they have greater influence over their working environment, the destiny of their artworks and interaction with the public than would normally be the case, where artists often work in isolation. The investor-patrons are also more involved than they might be in a traditional investing relationship. Other stakeholders include the permanent employees and staff of the group, as well as the volunteers and interns who may work on specific projects or events. All temporary and event staff are paid the London Living Wage, permanent staff more. Artworld professionals who may recommend artists for inclusion in the collection, the Arts Council and communities surrounding the studios also have an interest in the organisation.
Evidencing social value	V22 gathers and collates a large quantity of data pertaining to its artists, collections, patrons, events and exhibitions on either an annual or an ongoing basis. An external valuation of the works in the collection is undertaken every two years. Its future plans include tracking artists' career development and devising a mechanism to describe how much additional value is created by an artist's association with V22.

Source: Company Social Impact Report, Edison Investment Research

EDISON

ValiRx

VAL201: Initial clinical data in Q115

ValiRx is an oncology company focused on therapeutics and diagnostics. It has a propriety technology platform, GeneICE, which could have potential in various cancers. Additionally upcoming newsflow for other therapeutics is expected in early 2015, with initial VAL201 clinical data and an update on further development plans for VAL401. ValiRx will need additional funding to pursue further development of its products and technology.

VAL201 and VAL401 leading the therapeutic pipeline

VAL201 is currently in a Phase I/II trial for the treatment of patients with advanced and metastatic prostate cancer and other advanced solid tumours. Recruitment is ongoing with initial data expected in Q115. In preclinical models, VAL201 exhibited complete repression of tumour growth. VAL401, a reformulation of a clinically approved drug, has entered a joint venture with Tangent Reprofiling. Preclinical lung cancer studies are complete and scientific advice on the next development steps is expected in Q115.

GeneICE: A propriety platform with a cool approach

GeneICE is a propriety technology based on gene inactivation; ValiRx has designed oligonucleotide probes to target four cancers and Alzheimer's disease. GeneICE silences genes using histone deacetylases complexes (HDAC). One of the lead compounds based on this technology targets the oncogene Bcl-2. In preclinical oncology studies, the lead compound halted tumour growth and reduced tumour mass (380µg vs 900µg) in 30 days. Compounds based around this technology could have potential in various cancers.

ValiFinn: A companion for the pipeline

ValiFinn is a Finnish subsidiary of ValiRx specialising in the development of predictive biomarkers. These are based on NAV3 and are being developed as both standalone and companion diagnostics. NAV3 mutations have been implicated in colon cancer, breast cancer, lung cancer, lymphomas and neurological cancers.

Valuation: EV of c £7.75m

The current EV is c £7.75m based on net cash of £760k at end June 2014. Cash should be sufficient to reach the next two inflection points for VAL201 and VAL401 in early 2015. Both of these could be triggers to secure additional funding, either from potential partnerships or via the capital markets.

Consensus estimates

Year end	Revenue (£m)	PBT (£m)	EPS (p)	DPS (p)	P/E (x)	Yield (%)
12/12	0.2	(2.3)	0.0	0.0	N/A	N/A
12/13	0.1	(2.9)	0.0	0.0	N/A	N/A
12/14e	0.3	(2.7)	0.0	0.0	N/A	N/A
12/15e	0.3	(3.6)	0.0	0.0	N/A	N/A

Source: Bloomberg

Pharma & biotech

Price*	0.27p
Market cap	£8m

*Priced as at 13 January 2015

Share price graph

Share details

Ticker	VAL
Listing	AIM
Shares outstanding	2,941.4m
Net cash (£m) as at 30 June 2014	0.76

Business description

ValiRx is an oncology company focused on therapeutics and diagnostics and has GeneICE, a proprietary technology platform. Additionally the other therapeutics areVAL201 currently in a Phase I/II trial for prostate cancer and VAL401 which has completed preclinical studies.

Bull

- A proprietary technology platform, GeneICE, to fill the pipeline.
- VAL201 could target multiple cancer indications.
- Diagnostic and therapeutic opportunities.

Bear

- Early stage of development.
- Limited cash to pursue further development.
- Oncology is a competitive market.

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Social impact reporting

Social purpose and context	ValiRx is a biotechnology company focused on improving outcomes for oncology patients. Its aim is to improve medication for patients with its innovative pipeline. ValiRx wants to ensure faster diagnosis for patients using its novel biomarker development programme. This therapeutic and companion diagnostic approach personalises treatment specific to each patient, which ensures patients who are more likely to derive a therapeutic benefit receive treatment. This approach improves patient outcomes while minimising the financial burden on the healthcare system. The biomarker test will also lead to earlier diagnosis and improved patient survival.
Who benefits?	The primary group that will benefit from ValiRx's pipeline is patients. The potential for new drugs and biomarkers could lead to earlier diagnosis and better treatments for cancer patients. The approval of ValiRx's products could lead to increased survival in cancer patients and reduce patient time in hospitals. The NAV3 biomarker can detect the onset of tumours and cancers. NAV3 is being designed as a standalone and companion biomarker that could lead to accurate detection of cancers and provide an efficacious readout for ValiRx therapeutics. The use of accurate biomarkers could mean cancers that express NAV3 mutations are detected at an earlier stage, improving survival and providing clinicians with an easy tool to measure efficacy in patients. The personalised medicine will also benefit the health system by reducing costs as only appropriate patient groups will receive the medications.
Activities and operations	The main activity ValiRx performs is research and development in the oncology space. It recently initiated its first clinical trial for VAL201 for the treatment of advanced and metastatic prostate cancer. VAL401 is the reformulation of a clinical drug with two years of data, which ValiRx hopes will gain clinical trial authorisation in Q115. Compounds based around the GeneICE technology have demonstrated positive preclinical data in cancer models. This technology is providing a platform for other cancers and neurological conditions that could lead to pipeline expansion. NAV3 is a biomarker in development to aid diagnosis of cancer patients and measure efficacy of ValiRx therapeutics to patients.
Stakeholders	The key stakeholders in ValiRx are the patients who might benefit from the drugs, the universities and academics that collaborate with ValiRx. Other stakeholders include grant organisations and investors that make research possible by providing the necessary funding to undertake preclinical and clinical research. The staff members of ValiRx are another group of stakeholders that control the design and execution of the work necessary for the company to gain market approval and lead to patient benefit.
Evidencing social value	ValiRx's lead candidate VAL201 has just entered Phase I/II first-in-man studies to validate its safety and preliminary anti-tumour activity. This product is at an early stage of development and as it progresses through the clinical trial process it can add value to patients benefiting from the therapeutic. ValiRx is also hoping to gain clinical trial authorisation of VAL401 in Q115, which again could lead to patient benefit.

Source: ValiRx Website, ValiRx Impact Report, Edison Investment Research

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