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AIM JOURNAL

Boost from EU prospectus changes

Raising money could be a little less expensive for AIM companies this year thanks to changes to EU regulations. The changes mean that more cash can be raised without the need for excessive regulatory and adviser costs for the production of a prospectus.

The threshold for the production of a prospectus has been doubled from €2.5m to €5m. This will make it easier and cheaper for small companies to raise cash. The number of people that can be offered shares without a prospectus increases from 100 to 150.

There are also plans for companies raising cash through a rights issue or with a market value of less than €100m to be allowed to publish a prospectus that is "proportionate" to their size. That should reduce the costs of raising cash from existing investors and make it easier to offer them the chance to maintain their stake in a company. Offers relating to employee share schemes are exempt from the requirements to produce a prospectus.

The amendment to the Prospectus Directive that includes these matters became law in the EU just before Christmas.

The regulations still need to be put on the statute book in the UK. The UK government has indicated that it will try to bring in the new regulations as soon as possible.

BAE bids £182m for Norkom

Giant UK defence contractor BAE Systems is acquiring AIM-quoted financial crime countermeasures developer Norkom Group for €217m (£182m). That is more than double Norkom's valuation when it joined AIM and Ireland's junior market the ESM in June 2006. One of the main beneficiaries of the deal is AIM- and ESM-quoted TVC Holdings.

Investment company TVC will receive just over €54m (£45.4m) for its stake in Norkom. That covered most of TVC's market capitalisation prior to the announcement of the terms of the bid. The rest of TVC's portfolio is unquoted, except for an 18% stake in Northern Ireland-based ITV broadcaster UTV Media worth just over £23m.

Dublin-based Norkom floated at €1.24 a share and the BAE bid is at €2.10 a share. That is 121% higher than the share price prior to the announcement of bid talks in November. Norkom made a pre-tax profit of €7.5m on revenues of €49.3m in the year to March 2010. Norkom reported a fall in interim profit from €3.76m to €885,000 as it invested more in R&D and marketing. Full-year revenues are likely to be flat.

This deal appears to be part of a diversification strategy for BAE. Last month, BAE paid £137m for Denmark-based cyber security business ETI. BAE already owns Detica's NetReveal financial security product and it believes that Norkom's anti-money-laundering technology will make a good fit.

In this issue

HubInvest publishes AIM Journal

www.hubinvest.com

general news

Sherborne seeks to oust F&C board members

AIM-quoted activist investor Sherborne Investors has used its 17.6% stake in F&C Asset Management to requisition a general meeting to remove two directors of the fund manager and replace them with three of its own appointees. The general meeting has been set for 3 February.

Aviva could be a significant player at the meeting because it owns 19.5% of Sherborne and has been adding to its direct stake in F&C. It owns 6.43%, plus a further 2.52% indirectly and 0.56% via a CFD.

Sherborne wants to remove F&C chairman Nick MacAndrew and non-executive Brian Larcombe. McAndrew joined the board in 2007 and became chairman in May 2009, while former 3i boss Larcombe joined the board in 2005. There are four other non-executives and two executives on the F&C board.

Guernsey-registered Sherborne joined AIM in March 2010 and raised £105m at 100p a share prior to its quotation. Sherborne has subsequently used more than half of that cash to build up the F&C stake. It is asking the meeting to appoint Edward Bramson, Ian Brindle and Derham O'Neill to the board. Sherborne wants Bramson to become chairman of F&C, which itself points out that all three men will require FSA approval to become directors. F&C argues that the men lack experience in financial services.

F&C argues that Sherborne has not put forward any alternative strategy for the business. Sherborne's overall strategy is to find an underperforming business and help it to improve its performance.

F&C's assets under management grew from £95.3bn to £108.2bn in the three months to September 2010, helped by the acquisition of Thames River Capital which added £4.2bn to the figure. However, F&C says the requisition has already hampered its relationship with a Portuguese client with £15.6bn of assets.

Milhench fraud charge

Two former employees of Weather Lottery, including former chief executive Keith Milhench, have been charged by Nottinghamshire police with seven counts of fraud and four charges of theft.

Amie Pickersgill-Smith, a former office manager, is the other person involved. The charges relate to the alleged misappropriation of jackpot payments to lottery winners between April 2008 and April 2010. The total value of the fraud and theft is £80,000. The Gambling Commission investigated the allegations and then referred the matter to Nottinghamshire police. There will be a magistrates hearing in Nottingham on 24 January.

No one else connected with the company is suspected of any wrongdoing by the police. The company's licence to operate as an external lottery manager was renewed in October 2010.

Weather Lottery recently completed the acquisition of online poker company Devil Fish Poker as part of its strategy to reduce its reliance on lotteries and develop internationally.

MiLOC decides on Plus-quoted option

After four months of trying to join AIM, Chinese medicines supplier and developer MiLOC Group has chosen to join Plus-quoted instead.

On 6 December, a schedule 1 notice was published which said that MiLOC would join AIM in mid-December. That was the seventh schedule 1 notice since early August when the original flotation date of 24 August was announced.

MiLOC joined Plus-quoted on 23 December when it raised £794,000 at 33p a share. That was the same amount of cash that was going to be raised in an AIM flotation. After expenses, MiLOC was left with £353,000. MiLOC was valued at £20.4m at the placing price.

MiLOC has big plans to develop reliable traditional Chinese medicines for treating influenza and other epidemic diseases, as well as forming joint ventures to develop a network of clinics and hospitals.

The cash raised will help to pay for the registration of potential flu treatment Rorrico in Hong Kong and China. MiLOC has plenty of other uses for the cash but it won't last long.

MiLOC is an early-stage company and it may benefit from being on Plus-quoted for a time before it joins AIM. It will help it to get used to being a quoted company and to build up the business to a more significant size.

advisers

Accountant backs management buyout of Dowgate

Accountant Beavis Morgan, which was formed by former executives of Vantis, is behind the company that has acquired **Dowgate Capital Stockbrokers** from Astaire Group.

Crawley-based Dowgate Capital Stockbrokers was formerly known as Seymour Pierce Ellis. Neil Badger and Clive Mattock, who have been associated with the broker for more than a decade, are taking a 25% stake in the buyout vehicle 3B Capital in return for £82,502. The rest will be owned by Beavis Morgan LLP.

3B is paying £900,000 for the business, with £225,000 due no later than the end of June 2012. That is a small discount to adjusted net assets of £941,000. The deferred payment may be subject to claims under warranties and indemnities. The FSA has to give consent for the change of control of the firm. This consent has yet to be confirmed.

In 2009, Dowgate made a loss of £330,000 on revenues of £2.36m. Crawley-based Dowgate has 13 staff.

Vantis was quoted on AIM until it went into administration in 2010. The accountant was highly acquisitive and it ran into difficulties because of its high borrowings. Beavis Morgan is based in Vantis's old head office in St John Street, London. Other parts of the Vantis business were snapped up by RSM Tenon and Begbies Traynor.

This disposal leaves Rowan Dartington as Astaire's only remaining business and that is in the process of being sold. Shareholders are still not getting any pay-out even though Astaire Securities and Dowgate Capital Stockbrokers have been sold. The cash is required to cover potential liabilities, including the Izodia litigation, and regulatory capital requirements.

AIM brokers appear to have enjoyed a strong last few months to 2010 as new issues activity started to recover.

Arbuthnot Securities will report a profit for 2010. The broker reported a pre-tax profit of £500,000 in the first half thanks to improved revenues. However, the third quarter deteriorated sharply. Even so, the fourth quarter was strong enough to achieve a full-year profit in 2010. It made a small loss in 2009.

Panmure Gordon says that its trading improved significantly in the second half of 2010. The UK investment banking business was boosted by M&A and fundraisings as well as the addition of 22 new clients during the year. Secondary share trading remains subdued.

ADVISER CHANGES - DECEMBER 2010

COMPANY	NEW BROKER	OLD BROKER	NEW NOMAD	OLD NOMAD	DATE
LED International	Allenby	Strand Hanson	Allenby	Strand Hanson	01/12/2010
Surgical Innovations	Seymour Pierce	Westhouse	Seymour Pierce	Westhouse	01/12/2010
Zetar	Liberum	Altium	Liberum	Altium	01/12/2010
GW Pharmaceuticals	Peel Hunt	Piper Jaffray	Peel Hunt	Piper Jaffray	03/12/2010
Lansdowne Oil & Gas	FinnCap	Canaccord	FinnCap	Canaccord	03/12/2010
CareCapital Group	Rivington Street/Libertas	Libertas	Libertas	Libertas	06/12/2010
Motive Television	Jendens	Jendens/Hybridan	Merchant Securities	Merchant Securities	06/12/2010
Sceptre Leisure	Panmure Gordon	Seymour Pierce	Panmure Gordon	Seymour Pierce	06/12/2010
Uranium Resources	Optiva/Ambrian	Ambrian	Ambrian	Ambrian	06/12/2010
Worldspreads Group	Matrix/Collins Stewart	Collins Stewart	Collins Stewart	Collins Stewart	07/12/2010
Metminco Ltd	Investec/Daniel Stewart	Daniel Stewart	Investec	Daniel Stewart	08/12/2010
Touch Group	Shore/Hybridan	Shore	Shore	Shore	10/12/2010
Tissue Regenix	Peel Hunt	ZAI	Peel Hunt	ZAI	10/12/2010
MDM Engineering	Collins Stewart	Numis	Collins Stewart	Numis	13/12/2010
Zenergy Power	Matrix/Mirabaud	Panmure Gordon/Mirabaud	Matrix	Panmure Gordon	13/12/2010
Opsec Security	Shore	Oriel	Shore	Oriel	14/12/2010
Empresaria Group	Altium	Singer	Altium	Singer	16/12/2010
Quadnetics Group	Arbuthnot	Brewin Dolphin	Arbuthnot	Brewin Dolphin	16/12/2010
India Capital Growth Fund	Numis	Arbuthnot	Grant Thornton	Arbuthnot	20/12/2010
Ultrasis	Strand Hanson	FinnCap/Marshall	Strand Hanson	FinnCap	20/12/2010
Proximagen Group	Numis	Evolution	Numis	Evolution	21/12/2010
Solid State	FoxDavies	Charles Stanley	FoxDavies	Charles Stanley	21/12/2010
Resources In Insurance Group	Allenby/Rivington Street	Rivington Street	Allenby	Allenby	22/12/2010
Niger Uranium	Beaumont Cornish	na	Beaumont Cornish	Beaumont Cornish	22/12/2010
Aurora Russia Ltd	Numis	Investec	Numis	Investec	23/12/2010
Beacon Hill Resources	Collins Stewart/ Renaissance Capital	Northland	Collins Stewart	Northland	23/12/2010
API Group	Numis	Numis	Cairn	Grant Thornton	24/12/2010
John Lewis of Hungerford	Smith & Williamson	Dowgate	Smith & Williamson	Smith & Williamson	24/12/2010
Stagecoach Theatre Arts	Smith & Williamson	Daniel Stewart / Smith & Williamson	Smith & Williamson	Smith & Williamson	29/12/2010

company news

First Artist bounces on cash and management injection

Theatre marketing and promotion *www.firstartist.com*

Pivot Entertainment has provided a $4m (£2.5m) cash injection and a new management team for **First Artist Corporation**. Pivot decided that this was a better option than bidding for the theatre marketing services provider. This has not worried investorsbecause the share price more than trebled in December.

Pivot is a New York-based entertainment and marketing business backed by the Stoller family. David Stoller has become executive chairman of First Artist. Fellow Pivot director Jeremy Barbera is the new chief executive of First Artist, while Shirley Stapleton takes on the role of finance director.

The share price more than trebled in December

Pivot is subscribing for 9.9m shares at 11p each and that leaves it with just short of 30% of First Artist. Another £1.4m is being lent to First Artist in the form of a five-year loan with an interest rate of 8%.

The new cash will be used to repay money owed to Drew Hodges following the acquisition of Spot and Company of Manhattan.

FIRST ARTIST CORPORATION (FAN)	24p
12 MONTH CHANGE % + 29.7	MARKET CAP £M 9.57

The plan is to replace the existing bank facility with a £14.5m revolving credit facility with Allied Irish Bank at the end of January 2011. This facility is dependent on Pivot providing a further unsecured loan of £4.5m – on the same terms as the latest loan. First Artist's acquisition spree meant that it built up large borrowings and this has been a drag on the share price. The new management team provide hope that the business can now move forward.

Investment manager Standard Life acquires Focus

Financial services software *www.focus-solutions.co.uk*

Financial services software supplier **Focus Solutions** has been acquired by Standard Life after a decade on AIM. This is the second AIM-quoted technology company that Standard has bought in just over two years.

Standard paid 140p a share in cash for Focus, which valued the company at £42m. Standard believes the acquisition will help it to enhance the technology it is developing for intermediaries and other financial products distributors. Putting the Focus technology with Standard's own technology will provide a complete service, including point of sale, customer relationship management, tax wrapper and investment trading. It will also help Standard to attract third-party asset management business for its platform.

FOCUS SOLUTIONS (FSG)	138.5p
12 MONTH CHANGE % + 284.7	MARKET CAP £M 41.6

In September 2008, Standard paid £24.2m in cash for employee benefits technology developer Vebnet. Standard was adding flexible benefits and online reward options to its Employee Wealth Plan and acquiring Vebnet helped in this process. It also widened Standard's client base.

The bid represents a relatively good price for Focus Solutions, which was trading at 36p a share a year before the bid. However, Focus floated at the top of the technology market in March 2010. The original placing price was 195p a share but it has been a long time since the shares traded at that level.

Annual revenues were much less than £1m at the time of flotation yet the valuation achieved by the loss-making Focus was more than Standard has paid. That is a function of the high valuations at the time and should not mask the progress that Focus has made in the past decade. It has become a consistently profitable business and is in much better shape than when it floated.

company news

North American expansion should secure international progress for Ila

Personal security *www.ilasecurity.com*

Ila Group is developing a range of personal security items for women and the appointment of distributors in North America will help to increase international sales. A placing at 1.2p a share raised £1.4m at the beginning of December and provides the company with its first significant funding. This cash will help to develop the brand and expand international exposure.

Ila joined AIM in March when it reversed into a shell company called Baylon, which used to have a business that processed old tyres. That was an all-share deal and no new money was raised at the time. During the summer Ila raised £271,000 at 1p a share but cash has been limited up until now.

Ila was launched in 2008 with design input from major advertising agency BBH, whose subsidiary ZAG still owns 18.3% of the company.

Ila has appointed three US sales agents

The strategy was to develop a brand and product portfolio of stylish female safety and personal security accessories. The original product was the Ila Dusk, a personal attack alarm, and the range has been expanded to include a keyring alarm, pedometer, handbag hook, door wedge alarm and word-based padlock. Marks & Spencer and House of Fraser are stocking the products.

Ila has appointed three US sales agents, which will cover 15 states. Retail distributor Abbott has started distributing the Ila range of products in Canada. Shoppers Drug Mart and Chapters Indigo are already distributing the products in Canada.

ILA GROUP (ILA)	1.75p
12 MONTH CHANGE % + 177.8	MARKET CAP £M 12

Ila is looking to make acquisitions that could add new products, brands or services. The new products can then be sold through the distribution network that is being built up. The focus will continue to be on the female market but it does not have to be in the area of security.

Just before Christmas Nigel Wray increased his stake in Ila to just over 10%.

There is still a long way to go for the company. Ila lost £881,000 on revenues of £136,000 in the six months to June 2010. Rapid growth can bring its own problems but management has managed the growth so far and the additional cash gives additional flexibility.

Bid failure leaves Et-China with uncertain future

Online travel operator *www.et-chinalimited.com*

Switzerland-based travel operator Kuoni Travel dropped its bid for **Et-China.com International Holdings Ltd** six months after it was launched and the China-focused online travel operator has lost its quotation, leaving shareholders with an uncertain future.

Kuoni did not go ahead with the takeover because not all of the conditions for the scheme of arrangement had been met. The 115p a share bid was three times the market price at the time of its announcement and it valued Et-China at £56m.The bid was extended in September because

ET-CHINA.COM INTERNATIONAL (ETC)	103.5p
12 MONTH CHANGE % + 290.6	MARKET CAP £M 43

certain conditions had not been satisfied "due to legal and regulatory issues that have been raised in connection with a certain part of the company's business". Kuoni bought a substantial stake in Et-China in 2009 and still owns 28% of Et-China.

Shares in Et-China were suspended at 103.5p each on 1 July because it had not published its interim figures. Et-China joined AIM in August 2007 when it raised £3.23m at 127p a share.

In November, Et-China's chief executive, Matthew Ng, was detained by Guangzhou police as part of their investigations into the crime of misappropriation of company assets. No news has been released about this since then. Non-executive director Chris Rose became acting chief executive.

The bid was outside of the jurisdiction of the Takeover Panel because Et-China is registered in Jersey.

company news

Boardroom battle at Russian residential property investor RGI International

Moscow-focused property developer *www.rgi-international.com*

RGI International has hit back at the criticisms from rebel director Petr Shura, who has requisitioned a general meeting for the Moscow-focused property developer through his company Synergy Classic.

RGI accuses Shura, who owns 22.25% of RGI through Synergy, of trying to further his own interests. The company says that he has "sought to exercise undue influence over RGI" since becoming an investor last year. Shura invested $90m at the time. He says that he was given commitments on how the cash would be spent, a strengthening of the management team and improved corporate governance. He does not feel that those commitments have been fulfilled.

According to RGI, Synergy has "purported to exercise a put option" to require RGI to buy all of Synergy's shares in RGI but the company has commenced legal action against Shura because it says that this option is invalid. The buyback could cost $99m.

Shura says that he has been approached by other shareholders who want him to seek change rather than ask for his money back.

Shura argues that the board is unduly influenced by D.E.S. Commercial Holdings Limited, where RGI's chairman and chief executive are co-owners. He accuses the two men of using RGI as a personal bank and claiming excessive expenses. Shura claims that RGI chief executive Boris Kuzinez "stated that he needed the money in return for bribes which he had had to give". Shura criticises other payments to directors and their families. There are also accusations of misleading financial statements.

RGI strongly denies Shura's allegations about directors' pay and its financial statements.

Two non-executive directors have resigned in the past month. Shura wants to make sure that any new appointments are "irrefutably independent" and he wants there to be three appointments. RGI says it is looking for additional non-executive directors.

RGI INTERNATIONAL (RGI)			165p
12 MONTH CHANGE %	+ 69.2	MARKET CAP £M	266.8

Shura plans to remove Emanuel Kuzinez, Yoram Evan and Jacob Kriesler from the RGI board and to make sure that the company has to appoint a majority of independent directors.

RGI says that the requisition to remove three directors is valid but it says that the "remaining resolutions proposed in the Notice either cannot be validly proposed in their current form or are ambiguous". RGI has asked for further clarification of these resolutions.

Cross-selling opportunities for Silverdell

Asbestos removal *www.silverdell.co.uk*

Asbestos removal firm **Silverdell** is continuing its recovery and it is in a position to expand into new markets.

Silverdell already has more than one-fifth of the £250m asbestos removal market and it wants to grow its share organically. There is limited scope to expand in this market and branching out into other industrial support services will help Silverdell to grow and offer additional services to existing customers.

Silverdell has an order book worth £62m which stretches out over more than one year. There is £34m due for delivery in 2010-11 compared with forecast sales of £59.5m for the year. This strong order book and the wide customer base has helped offset lower schools maintenance spending. Although there are worries about public spending the government will still have to spend money on the removal of asbestos because of regulatory requirements.

SILVERDELL (SID)			6.5p
12 MONTH CHANGE %	- 38.1	MARKET CAP £M	9.86

Net debt was £4.3m at the end of September 2010. Strong cash flow is expected this year and the net debt figure could halve by next September and be wiped out by September 2012. This provides scope for financing add-on acquisitions. The low share price makes it difficult to issue shares without being dilutive.

House broker FinnCap forecasts an improvement in profit from £2.6m to £3.1m in the year to September 2011. The shares are trading on less than five times prospective 2010-11 earnings.

dividends

Park's prepaid hopes for the future

Gift vouchers and prepaid cards *www.parkgroup.co.uk*

Dividend

Park increased its interim dividend by 14% to 0.5p a share and the total dividend for the year to March 2011 is expected to rise by the same amount to 1.5p a share. That should be covered 1.8 times by forecast earnings.

The 2009-10 dividend of 1.32p a share had been unchanged on the previous year. As Park grows its voucher and prepaid card businesses it should be in a good position to consistently grow its dividend. A further rise to 1.57p a share is forecast for 2011-12.

Park has a strong balance sheet although most of the cash at the interim stage is that of its savers rather than its own.

The cash pile at the end of September 2010 is just below the peak for the year of £140m – a 17% increase on the previous year's peak. Most of the money is held in trust.

Net company cash was £11.3m at the end of September 2010. The cash can be used to buy products on better terms.

The disposal of the company's surplus property at Dock Road North for £1.82m will provide a boost to the cash position but not all the cash will come in immediately.

Business

Interim figures from Park were flattered by a VAT refund but the core gift voucher and Christmas savings business is making progress and its new prepaid card operations are beginning to contribute.

Corporate vouchers income jumped 51% to £45.1m. That growth rate accelerated during the first half. Park sells gift vouchers that are accepted by a range of retailers. Much of the growth is coming from the corporate incentives side of the business.

Park launched the flexecash prepaid card in June. The card has already added more than 100 corporate customers but it has yet to make a significant contribution to the company's figures. The corporate order book is worth £14m.

Park is FSA authorised and has a growing market to tackle. Prepaid cards are a £16bn market, which is expected to grow by between 10% and 20% a year.

Park reported a jump in group revenues from £34.2m to £50.9m in the six months to September 2010. Stripping out the VAT refund of £4.42m, the interim loss declined from £4.17m to £3.88m.

Park has bought Dublin-based Celtic Hampers and Family Hampers for €1m. The deal provides Park with a good base in Ireland via a business that is similar to its own. Duplicated costs can be removed.

House broker Arden forecasts a full-year profit of £6.5m, which excludes the VAT refund and a £1m gain on the disposal of the surplus property. The shares are trading on 12 times forecast 2010-11 earnings.

PARK GROUP (PKG)	
Price	33p
Market cap £m	53.7
Historical yield	4%
Prospective yield	4.5%

Dividend news

Pressure Technologies had a tough year to 2 October 2010 but that did not stop it maintaining its progressive dividend policy. Pre-tax profit dipped from £5.05m to £3.51m, while the final dividend was increased from 4.4p a share to 4.8p a share. The total dividend for the year rose from 6.6p a share to 7.2p a share. That dividend is still more than three times covered by earnings. The yield is 3.8%. The core business is the manufacture of high-pressure, seamless steel gas cylinders but the company has diversified into other engineering products in the past year. BP's oil spill in the Gulf of Mexico hit demand from the deepwater oil and gas sector. Non-oil and gas work is expected to grow this year but profits are not expected to recover to 2008-09 levels.

Patent translator **RWS Holdings** has increased its total dividend for the seventh year in a row. Every year the dividend has gone up by 10% or more. This year the total dividend increased 15% to 13.4p a share. Pre-tax profit was flat at £14.6m in the year to September 2010. The dividend is nearly 1.9 times covered by earnings and the yield is 3.6%. The purchase and fit-out of a new head-office building will cost £12.6m but it will also save on rent. The cash was not earning much in the bank. Even after most of the outlay, net cash is £17.9m.

Enterprise software supplier **Sanderson** is aware that a lot of its shareholders bought its shares for income and it continues to rebuild the annual dividend on the back of improving profitability. The total dividend for 2009-10 is 50% higher at 0.6p a share. The peak was 2.7p a share for 2006-07. Sanderson can continue to reduce debt as well as increasing the payout to shareholders.

expert views

Expert view: The broker

Self help for 2011

By DUNCAN HALL

Insolvency practitioner Begbies Traynor had well flagged its interim figures but trading conditions in the insolvency sector remain challenging.

Begbies Traynor is a specialist professional services consultancy, whose main focus is on insolvency services, although it also offers tax and corporate finance advice.

National insolvency numbers shrank 17% during the period but Begbies Traynor's market share improved as its first-half revenues were down 9% to £27m on the previous year. However, profits declined 26% to £6.4m, reflecting fixed-cost pressures.

The second half tends to be stronger for the group, but the decline in insolvency numbers during the first half, despite prior expectations of an increase, suggests that it is appropriate to take a cautious line on profit expectations for the second half and beyond.

Cost cutting in the second half will benefit the next financial year, but the key determinant remains insolvency numbers and, to a lesser degree, prospects for the property market. The Corporate Finance function, included in the division and recovering, may deliver some contingent-based fees in the second half which would be helpful to the full-year outcome.

Tax

The Tax division returned a small profit of £0.3m in the first half, which was better than expected. Earnings are second-half-weighted, because of the increase in work at the end of the tax year, and further improvement is expected.

Although earmarked for expansion, plans had been put on hold until the Tax division's results improved.

Begbies Traynor has had success with its Global Risk Partner business (fraud, forensic accounting and corporate investigations work) which is proving high margin and has growth prospects. First-half revenues were £3.4m, with a profit of £0.7m.

Combined with the Tax division, prospects for the two divisions now go some way to making up a significant share of the Insolvency shortfall.

> As insolvency numbers have stalled, even with some increase assumed for 2011, the market remains tough

Insolvency numbers

As insolvency numbers have stalled, even with some increase assumed for 2011, the market remains tough. Begbies Traynor now believes it is carrying surplus labour cost for as long as insolvency activity remains more subdued than originally expected. Cost cutting has become imperative to preserve margins. There will be £1.4m of exceptional cost in the year to April 2011 related to this cost cutting.

Margins are still good for insolvency work, but past their peak for the group without market growth or cost reduction.

> Margins are still good for insolvency work, but past their peak for the group without market growth or cost reduction

Net debt is forecast to rise to £23.8m at the end of April 2011, compared with £20.2m a year before. That is mainly attributable to an increase in working capital.

Acquisitions will add £2m to revenues in the year to April 2011. The reality is that conditions remain challenging for insolvency work and accordingly we have reduced our current-year pre-tax profit estimate to £8.7m (from £10.7m) which leaves EPS of 6.3p on a 35% tax charge (H1 EPS 2.6p). The shares are underpinned by NAV of 75p which incorporates a conservatively valued debtors' book of £50m, but there is still uncertainty over future insolvency levels.

Insolvency levels are expected to increase by 10% for 2012. The 2011-12 profit forecast of £9.6m assumes the net benefit of cost cutting by 5%, after allowing for some wage inflation.

Professional service sector multiples remain depressed, yet Begbies Traynor, which traded on a multiple of revenues at the onset of the recession, now trades at around 1x revenue as insolvency numbers failed to grow.

A 5% dividend yield, on an unchanged total dividend of 3p a share, is welcome. Profits in the year to April 2012 will be helped by cost cutting but, despite the share price reaching new lows, we believe it is too early to make a case for a return to a premium rating.

DUNCAN HALL is a research director at FinnCap.

feature

AIM's recovery remains on track

AIM has outperformed the Main Market for the second year running. Just as importantly, existing AIM companies have raised more cash in 2010 than in any single year other than 2007.

AIM continues to recover strongly and it enters 2011 in a positive position thanks to a bumper cash-raising month in December.

The FTSE AIM All-Share rose by 42.7% in 2010. In comparison, the FTSE All-Share index was 11% ahead on the year. This year, unlike 2009, AIM even outperformed the FTSE Fledgling index.

AIM rose by 66% in 2009, outstripping the FTSE All-Share rise of 25% in that year. Admittedly, AIM is still catching up on its underperformance in the preceding years. The FTSE AIM All-Share is still more than 10% lower than at the end of 2007, whereas the FTSE All-Share is down around 3%.

There was a recovery from £740m to £1.08bn in the money raised by new entrants to AIM as new-issue numbers start to pick up. That is still the second-lowest figure since 2002, though.

Cash raisings

The existing companies on AIM raised £5.74bn in 2010, up from £4.86bn in 2009. That is the highest amount raised in one year since 2007, when £9.6bn was raised. The 2010 figure was also £3.8m higher than the amount raised in 2006.

More cash was raised in December than in any other month last year. In fact, the £1.22bn raised was more than in the first four months of 2010.

During December, Eastern Platinum raised £225.2m, orange plantations operator Asian Citrus £125.4m and investment company Burford Capital £110m.

Oil and gas has been the most active sector on AIM for raising money. One-third of the £5.74bn in cash raised went to oil and gas companies. New-issue cash was more spread around, with 13% of the money raised going to the oil and gas sector.

Mining, which has tended to be the most cash hungry sector, accounted for nearly 30% of the secondary fundraisings and a similar percentage of new-issue cash.

All of the top ten best performers in 2010 were either oil and gas or mining related. Oil finds in the North Sea and the Falklands were behind the big risers – but there have been plenty of disappointments in the sector as well.

Numbers

While AIM gets stronger in value terms, the number of companies continues to decline from the peak of 1,700 at the beginning of 2008. There were 1,194 companies whose shares are traded on AIM at the end of 2010. This means that the average size of company on AIM has increased from £43.8m to £66.5m during 2010. The majority of AIM companies are still worth less than £25m, though.

The rate of decline is slowing, with the net leavers down from 256 in 2009 to 99 in 2010. New-issue numbers picked up in the second half but most months there are still more companies leaving AIM than joining.

Mergers and acquisitions activity continued to be significant, with the biggest deal of all coming near to the end of 2010. NYSE-listed hard coking coal producer Walter Energy is acquiring AIM-quoted and TSX-listed Western Coal Corporation (WCC) for C$3.3m (£2.1bn). WCC is the largest company on AIM.

The WCC deal has not been completed as yet but there were 62 completed takeovers of AIM companies in 2010, compared with 50 in 2009. There have been significant numbers of takeovers for a number of years as bidders identify bargains following the decline in share prices. The recovery in share prices may make the lowly rated bargains more difficult to find but there is still value out there for companies that can save on the overheads of their takeover target.

More companies left because they were taken over than chose to drop their AIM quotation. The number of companies choosing to leave AIM more than halved from 111 to 47.

The FTSE AIM All-Share rose by 42.7% in 2010

Some of those launched tender offers to enable minority shareholders to sell out before the trading facility ended.

Rival gains

AIM has been losing some of its best-performing Asian companies. West China Cement and China Medical Systems Holdings both chose to move to a Hong Kong listing. Solar wafers supplier ReneSola decided to concentrate on its New York Stock Exchange ADR listing. Property investor China

feature

Real Estate Opportunities, not such a strong performer, underwent a restructuring and joined the Singapore Stock Exchange as Treasury China Trust.

Not all companies that join an Asian market leave AIM. Asian Citrus has maintained its AIM quotation.

It is not just Asian companies that are moving to other markets. Sensor technology developer Osmetech, which had been on AIM for more than one decade, left to join Nasdaq. This was via a restructuring and fundraising by a new corporate vehicle, GenMark Diagnostics. Osmetech tried to make the move when global stock markets were at their low point but it had to be put off until last year.

This is a minor trend but it is continuing. Wave-power technology developer Ocean Power Technologies joined Nasdaq after it floated on AIM and it dropped its AIM quotation at the beginning of 2011.

Not many companies left AIM last year because of financial difficulties. Fifteen companies left, predominantly because of a lack of cash and/or going into administration, down from 51 the previous year. Some of the companies that left AIM because they were being wound up or for other reasons were influenced by their lack of cash but, even including those companies, financial problems were still a relatively rare reason to leave AIM last year.

No standard worries

Eleven companies moved from AIM to the Main Market while seven moved the other way. The new standard listing did not lead to a sharp outflow of companies from AIM as some had predicted. Nearly all the AIM companies moving to the Main Market went for a premium listing.

The movers included Sportingbet, accountant RSM Tenon and Entertainment One, the distributor of the Twilight films.

There are nine companies worth more than £1bn quoted on AIM. Mining and oil and gas companies dominate the largest companies on AIM but there are companies from other sectors that have performed impressively and become large companies in recent times.

> There were 62 completed takeovers in 2010, compared with 50 in 2009

A great example of a company that has ridden the upturn on AIM is Alliance Pharma. The drug distributor was valued at nearly £700m at the end of 2010, whereas less than two years earlier it had been languishing at less than £25m. Additional shares have been issued to finance the acquisition of further drugs for Alliance's portfolio but the vast majority of the increase in value has come from an improvement in the share price.

This improvement has been sparked by a combination of a move towards significant profitability and a transformation of the perception of the company. Alliance specialises in drugs that have already been developed and have niche markets that are too small to attract new competitors. This provides the equivalent of an annuity revenue stream from the drugs without the need for heavy expenditure on marketing. Because of this sound income stream, Alliance can cope with high levels of debt as long as the income stream comfortably covers the interest costs.

Two years ago debt was a dirty word and investors were not impressed with Alliance. That attitude to debt has softened over the past couple of years. The increasing interest cover has also helped. Investors' seem comfortable with the debt levels and they have not been averse to further acquisitions that have increased borrowings.

Liquidity

Liquidity has always been a major topic for AIM. This was a disappointment in 2010. A strong last month of the year meant that the average daily number of bargains edged up from 15,745 in 2009 to 16,055, but the average daily trading value slipped from £133.1m to £129.3m. The latter figure is particularly disappointing considering that the market value of AIM has risen from £56.6bn to £79.4bn.

There are signs of much better liquidity in the last quarter of 2010 when the average daily trading value was £172.5m and the number of bargains showed an improving trend. If this improving trend can be maintained then it will augur well for AIM this year.

REASONS FOR LEAVING AIM

REASON	2010	2009	2008	2007
Choosing to cancel quotation	47	111	54	17
Financial problems	15	51	41	16
Takeover	62	50	68	74
Shares suspended for six months	9	18	7	6
No nominated adviser	2	16	15	15
Winding up	11	12	11	4
Move to Main Market	11	10	12	13
Shell without suitable acquisition	3	7	8	17
Total	**160**	**275**	**216**	**162**

statistics

Market Performance, Indices and Statistics

AIM SECTOR INFORMATION

SECTOR NAME	% OF MARKET CAP	% OF COMPANIES
Oil & gas	23	9.4
Basic materials	20.4	13.3
Financials	20.2	23.8
Industrials	10.2	18.8
Technology	7.6	10
Consumer services	6.9	11.8
Health care	5.3	5.4
Consumer goods	3.9	5.2
Telecoms	1.6	1.2
Utilities	0.9	1.1

FTSE INDICES

ONE-YEAR CHANGES

INDEX	PRICE	% CHANGE
FTSE AIM All-Share	933.63	+42.7
FTSE AIM 50	3578.16	+34
FTSE AIM 100	4301.7	+46.4
FTSE Fledgling	4789.69	+18.6
FTSE Small Cap	3228.61	+16.3
FTSE All-Share	3062.85	+10.9
FTSE 100	5899.94	+9

COMPANIES BY MARKET CAP

MARKET CAP	NO.
Under £5m	277
£5m-£10m	159
£10m-£25m	270
£25m-£50m	197
£50m-£100m	123
£100m-£250m	105
£250m+	65

KEY AIM STATISTICS

Total number of AIM	1,196
Number of nominated advisers	62
Number of market makers	49
Total market cap for all AIM	£71.68bn
Total of new money raised	£71.4bn
Total raised by new issues	£34.16bn
Total raised by secondary issues	£37.24bn
Share turnover value (2010)	£29.08bn
Number of bargains (2010)	3.56bn
Shares traded (2010)	129.73bn
Transfers to the official list	151

TOP 5 RISERS OVER 30 DAYS

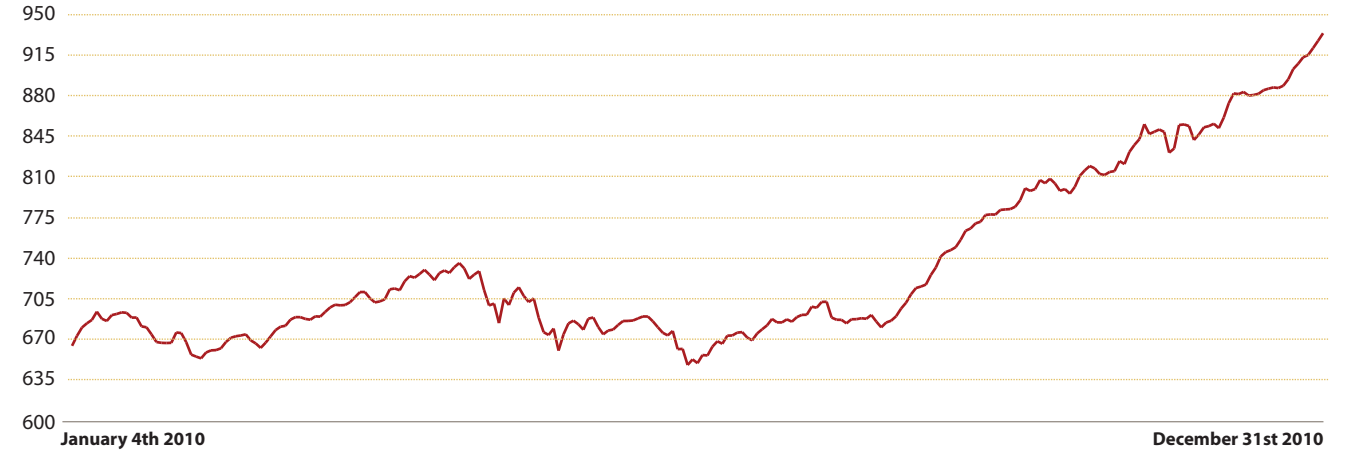
COMPANY NAME	SECTOR	PRICE (p)	CHANGE (%)
Mar City	Housebuilding	2.58	+415
Crosby Asset Management	Financials	1.4	+324.2
SocialGO	Media	4.05	+260
Rare Earth Minerals	Mining	1.4	+245.7
First Artist Corporation	Media	24	+242.9

TOP 5 FALLERS OVER 30 DAYS

COMPANY NAME	SECTOR	PRICE (p)	CHANGE (%)
Desire Petroleum	Oil and gas	47.75	-55
BgenuineTec	Biometrics	5	-47.4
ACP Capital	Financial	1.75	-36.4
European Nickel	Mining	23	-31.3
William Ransom	Health	3.12	-30.6

AIM - 1 YEAR INDEX CHANGE

Source: London Stock Exchange



Data: Hubinvest Please note - All share prices are the closing prices on the 31st December 2010, and we cannot accept responsibility for their accuracy.

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finnCap

finnCap is a client focused institutional broker and corporate advisor, with astrong track record in advising and raising capital, providing research and after-market care for both growing and established smaller companies. The institutional broking team provides a dedicated, bespoke agency broking service to fund managers and private client brokers.

finnCap is already ranked as a top-ten AIM adviser and broker and occupies leading positions in several sectors. In technology it is No. 1 ranked by number of AIM clients, and no 2 in life sciences. finnCap's 45-strong team has established leading positions in the small cap consumer, industrials, insurance, support services, financials and mining sectors. The finnCap research team was shortlisted at the 2009 AIM awards.

finnCap works with over 65 corporate clients and raised just over £90m for clients in 2009. It is a Nominated Adviser (NOMAD) for AIM companies and a Corporate Adviser for Plus Markets. In 2007, private client stockbroker JM Finn transferred its corporate finance, research and institutional broking business into a new subsidiary, JMFinn Capital Markets (finnCap). The management team and employees of finnCap took a significant equity stake in the business.

In 2010, finnCap employees and non-executive chairman Jon Moulton acquired the outstanding 50% of the company that was previously owned by JM Finn. The company name has changed to finnCap Ltd, in line with the trading name.

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