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AIM JOURNAL

AIM bounces back

AIM recovered during April, with the FTSE AIM All Share index rising by 5.7%. The FTSE AIM 100 index was 6.7% ahead but the best performer was the FTSE AIM 50 UK index, which was 9.1% higher. That compares with a 2.3% increase for the FTSE All Share index. The smaller companies did better than the larger ones, because the FTSE 100 index was 1.9% higher.

Some of the companies that were subject to profit-taking in the previous six months recovered some lost ground. Scapa was the biggest riser in the AIM 50, with a 39.1% increase, followed by video games services consolidator Keywords Solutions, with a 34.7% jump. However, neither company's share price has returned to the level it was at the beginning of October.

IP localisation services provider RWS is the third-best performer, with a 25.3% increase and the share price is more than one-fifth higher than at the beginning of October.

Online retailer ASOS no longer has the greatest weighting in the AIM 50 but it still accounts for 7.78% of the index so the 22.5% increase was an important factor in the AIM 50 outperformance. This followed the interim results, which had already been well-flagged. In the first half, revenues improved by 14% to £1.31bn. However, pre-tax profit slumped from £29.9m to £4m – after £24m of transition costs, up from £11m in the previous first half. Marketing activity has been stepped up and the US warehouse appears to be running more efficiently.

Small Cap Awards shortlist

AIM companies dominate the shortlist for the company of the year at the Small Cap Awards 2019. The focus of the awards is quoted companies that have a market capitalisation of less than £100m.

The six companies on the company of the year shortlist are technology businesses adviser and developer Frontier IP, scientific instruments sector consolidator Scientific Digital Imaging, oil and gas company i3 Energy, cloud computing services provider Beeks Financial Cloud, medical devices company Creo Medical and leak detection services provider Water Intelligence.

The IPO of the year award shortlist includes six companies that joined AIM last year. They are cyber security technology developer Crossword Cybersecurity, which was previously quoted on NEX, equities trading platform developer Aquis Exchange, egg-free cakes supplier Cake Box Holdings and digital technology services consolidator The Panoply Holdings, plus two litigation funding businesses: Litigation Capital Management and Manolete Partners.

The awards ceremony and dinner will be held on 26 June at the Montcalm Hotel in central London.

In this issue

general news

TruFin's AIM Distribution

Financial services firm TruFin, which joined AIM in February 2018, has spun off Distribution Finance Capital (DFC) as a separate AIM company. Jersey-based TruFin owned 91.3% of DFC and it has distributed the shares to its own shareholders on the basis of one DFC share for each TruFin share they own. There was no new cash raised by DFC. The market capitalisation is £96m.

DFC has been trading for around three years and it offers finance to manufacturers to help with their working capital requirements. The focus is currently on five sectors: motor vehicles, marine, recreational vehicles, industrial equipment and agricultural equipment. An application for a banking licence has been submitted, so that DFC can receive deposits. The demerger is expected to help in gaining the regulatory approval, which could be as early as July.

Total operating income was £1.68m in 2018 and the loss was £7.27m. The NAV was £54.6m at the end of 2018 and the full benefits of the cash invested in the business are not showing through yet. TruFin injected a further £25m into the business prior to demerger. Existing finance and facilities, plus a potential £40m mezzanine facility, would finance a loan book of at least £300m – compared with £114m at the end of 2018.

Arrowgrass is paying £44.5m to TruFin for its stake in peer-to-peer lender Zopa. TruFin retains two businesses. Oxygen provides early payment services and Satago offers invoice financing and plans to broaden the range of finance products it offers.

Share offer

Interactive Investor has approached Share, the owner of the Share Centre broking business, about a possible bid. The share price of Share has been rising since the release of its 2018 results and the announcement that it is acquiring an active book of accounts covering nearly 20,000 customers and more than £750m of assets from JP Morgan Asset Management. A share price of 34.5p values Share at £49.6m. Founder and chairman Gavin Oldham and the family concert party owns more than 64% of Share so he will influence any deal. Interactive Investor acquired TD Direct Investing in 2016 and Alliance Trust Savings last year. Interactive Investor is replacing its quarterly fee with a flat monthly fee.

Loungers targets expansion

Bristol-based café/bars operator Loungers joined AIM so that it can finance further expansion of its Lounge and Cosy Club chains. The placing raised £56.4m, after expenses of £5.2m, at 200p a share. That valued the company at £185m. Existing shareholders raised £21.7m from share sales. The shares ended their first week of trading at 208p each.

Loungers operates café/bars at 146 sites in England and Wales. Lounge was founded in August 2002 and is a neighbourhood café/bar that combines elements of coffee shop, pub and restaurant. Cosy Club are more formal bars and they are typically located in city centres. There are 122 Lounge outlets and 24 Cosy Club sites.

The strategy is to open 25 additional sites each year. Contracts have been exchanged on 13 sites and a further 35 sites are at an advanced stage of negotiations. Management believes that there is potential for more than 400 Lounge café/bars and more than 100 Cosy Club sites. It costs £600,000 to set up a Lounge and around £1m for a Cosy Club.

Each mature site is profitable. In the year to April 2018, revenues increased from £91.8m to £121m. The most recent interim revenues grew from £51.7m to £65.4m, while operating profit improved from £2.03m to £3.2m. Since then, like-for-like sales growth is 7.7%.

The group brought in Lion Capital as a backer at the end of 2016, and it remains the largest shareholder with 38.6%, even after cashing in on some of its stake. Net debt was more than £160m at 7 October 2018 and there were net liabilities. The flotation improves the look of the balance sheet, but pro forma net debt appears to be in excess of £100m.

Three executive directors received one-off bonuses relating to the flotation totalling £1.27m, with chief executive Nick Collins taking £1.1m of that money. Lounge managing director Justin Carter received a one-off bonus of £270,000.

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advisers

Conditions still challenging for Numis

Numis Corporation says that a continuing challenging backdrop has hampered its performance in the first half. Management is hopeful that clarity about the UK political environment will spark a significant improvement in corporate activity for the broker.

Investment banking revenues fell by nearly a quarter. Equities trading revenues were 28% lower and this part of the business had to absorb the underwriting loss on the Kier rights issue. Payments for research have been maintained even after MiFID II regulations came into force.

The bright spot was corporate retainers, which increased from £6.12m to £6.42m. New clients have been won and Numis has also been able to push through fee increases.

In the six months to March 2019, revenues slumped from £74.1m to £55.7m and, although operating costs, predominantly staff costs, were reduced, they did not fall at the same rate. Pre-tax profit declined from £19.5m to £7.11m. Despite the fall in staff costs due to variable remuneration based on performance there were more employees at the end of March 2019.

The dividend is maintained at 5.5p a share. There is still £78.9m in the bank, after spending £7.5m on share buy backs during the period. There is also a £35m committed credit facility.

Equities revenues have stopped declining and there have been deals completed during April, but they are small ones.

■ Simon Lough has been acquiring shares in broker WH Ireland following his appointment as a non-executive director, subject to Financial Conduct Authority approval. In four separate purchases he has acquired 215,001 shares at prices ranging from 42p to 48p each.

Puma Brandenburg, which is controlled by Howard Shore and connected persons, has acquired a 5.88% stake in Shore Capital from Aralon Resources for 200p a share. KA Abdulrahman had a controlling interest in Aralon, which has owned most of this stake for more than a decade. Executive chairman Howard Shore, Graham Shore and Puma Brandenburg own 59.9% of Shore Capital.

■ Blackthorn Focus is holding an Alpha Investor Forum at Churchill College, Cambridge, on 27 June. Companies presenting include electronics distributor Diploma, loadbanks and oil tools supplier Northbridge Industrial Services, ceramic products manufacturer Portmeirion and telematics firm Quartix. The expert speakers are financial sector analyst Jeremy Grime, Canaccord Genuity small companies fund manager Leon Shuall and James Sore, chief investment officer with crowdfunding platform Syndicate Room. More information is available at www.blackthornfocus.com/events/alpha-investor-forum-201906.

ADVISER CHANGES - APRIL 2019

COMPANY	NEW BROKER	OLD BROKER	NEW NOMAD	OLD NOMAD	DATE
Shield Therapeutics	Peel Hunt	Peel Hunt/Liberum	Peel Hunt	Liberum	01/04/19
Vast Resources	SP Angel/SVS	SVS	Beaumont Cornish	Beaumont Cornish	04/04/19
InfraStrata	Allenby	SI Capital/Allenby	Allenby	Allenby	05/04/19
Marlowe	Berenberg/Cenkos	Cenkos/	Cenkos	Cenkos	10/04/19
AFH Financial	Shore/Liberum	Liberum	Liberum	Liberum	12/04/19
IXICO	Cenkos	Shore	Cenkos	Shore	12/04/19
Metals Exploration	Strand Hanson	Canaccord Genuity	Strand Hanson	Canaccord Genuity	12/04/19
Yourgene Health	Stifel Nicolaus	finnCap	Cairn	Cairn	17/04/19
Salt Lake Potash Ltd	Hannam & Partners/ Cenkos	Cenkos/Shore	Grant Thornton	Grant Thornton	18/04/19
Rambler Metals & Minerals	SP Angel	Cantor Fitzgerald	SP Angel	Cantor Fitzgerald	25/04/19
Accsys Technologies	Investec/Numis	Numis	Numis	Numis	30/04/19
Oilex Ltd	Novum	Cornhill	Strand Hanson	Strand Hanson	30/04/19

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company news

Merger brings Mereo BioPharma the cash to complete its major clinical trials

Pharmaceuticals *www.mereobiopharma.com*

Mereo BioPharma completed its all-share merger with OncoMed Pharmaceuticals Inc on 24 April. As well as boosting the group's cash pile, the deal provides Mereo with a Nasdaq level III listing for American Depositary Shares (ADSs), thereby providing a base of specialist US healthcare investors. Each ADS is the equivalent of five ordinary shares.

OncoMed also has two interesting assets that expand the core portfolio of potential treatments to six. The OncoMed treatments are both focused on cancer. One of them is part of a collaboration with Celgene, which will decide in the near future whether to take up its option for a licence to develop and commercialise the treatment. If the option is exercised, Mereo will receive a payment of $35m, although there is no certainty that will happen.

There is £53.9m in cash

There was cash of £27.5m at the end of 2018 and following the merger there is £53.9m in cash. There was also debt of £21.5m at the end of last year. There is enough cash to get through to 2020. By then there will be news of studies for two of the treatments.

BPS-804, or setrusumab, is a treatment for Osteogenesis Imperfecta and the enrolment of 112 patients in an adult Phase 2b study was completed at the end of 2018. In the next few weeks top dose six-month data will be published. This will provide indications of how successful the drug is in improving bone density. The 12-month data for all the patients will be available by the end of 2019. Data for the phase 2 study for 165 patients dosed with the MPH-966 (alvelestat) treatment for severe Alpha-1 Antitrypsin Deficiency should also be available by the end of 2019.

MEREO BIOPHARMA LTD (MPH)			112.5p
12 MONTH CHANGE %	-65.4	MARKET CAP £M	108

Since the results were announced, chief executive Denise Scots-Knight has purchased 6,000 ADSs at an average price of $5.887 each and finance director Richard Jones acquired 2,025 ADSs at $6.04 each. Chairman Peter Fellner bought 30,000 shares at 128p each.

Flowtech set to improve cash generation

Fluid power products distributor *www.flowtechfluidpower.com*

Fluid power products supplier **Flowtech Fluidpower** reported full-year results in line with expectations and strong first-quarter revenues. The shares remain modestly rated given the combination of organic and acquisitive growth.

In 2018, revenues grew from £78.3m to £111.1m. The underlying organic growth was 5.7%. Underlying pre-tax profit improved from £8.68m to £10.7m. The total dividend was raised from 5.78p a share to 6.07p a share. Net debt was £19.9m. The new finance director is trying to improve cash collection. Assuming no acquisitions, admittedly unlikely, net debt could more than halve over the next two years.

FLOWTECH FLUIDPOWER (FLO)			138p
12 MONTH CHANGE %	-21.4	MARKET CAP £M	84.1

The first-quarter figures show that the revenues of the process division have declined, but overall revenues were 14% ahead at £30.1m. There was 4% organic growth.

A change in division structure is planned for the presentation of results this year. Instead of flowtechnology, power motion control and process, the divisions will be components and services. Components is higher margin and contributes more than 90% of operating profit.

Flowtech is coping well with continued uncertainty around the future relationship between the EU and the UK and the operations in Belgium and the Netherlands provide flexibility. The 2019 forecasts are unchanged, with pre-tax of £12.2m expected. Flowtech is valued at just over eight times prospective 2019 earnings, with a forecast yield of 4.6%.

company news

Focusrite seeks to spend cash on acquisition of complementary product ranges

Audio equipment manufacturer *www.focusrite.com*

Impressive interims from audio equipment supplier **Focusrite**, which managed to beat the exceptionally strong figures for the first half of the previous year. Weaker sales in North America have been offset by growth elsewhere.

The additional tariffs put on imports to the US from China were not the problem. Focusrite used this as a reason to increase its prices and that did not seem to affect product sales. This shows the strength of the brand and its reputation. That could be tested again if the tariffs are raised. The dip in the US was attributable to the Novation part of the business, and specifically the Launchpad electronic music range, which is around four years old, so it is due for a refresh. That is happening and there will be new product launches over the coming 12 months.

There is potential for accretive acquisitions

In the six months to February 2019, group revenues were 4% ahead at £40.4m, although most of that growth was due to favourable exchange rate movements. To put that in perspective, in the six months to February 2017, revenues were £32m, so they have grown by one-quarter over two years. Gross margin improved from 41.7% to 44.3%, helped by the US price increase.

The interim dividend is one-fifth higher at 1.2p a share. That is not a big drain on cash, which increased to £26.2m at the end of February 2019. There is also a £10m revolving credit facility. There is potential for earnings enhancing acquisitions and management has already weeded out the less attractive options. The strategy is to buy a well-run company with products that can be sold alongside the existing ones. The valuation is high, with the shares trading on 27 times 2019-20 earnings. That suggests that the market is assuming a successful acquisition strategy will bring that multiple down.

FOCUSRITE (TUNE)			495p
12 MONTH CHANGE %	+6.5	MARKET CAP £M	287.7

Solid State beating expectations

Electronic products supplier *www.solidstateplc.com*

Electronic products supplier **Solid State** continues to improve its performance after an up and down couple of years and the figures for the year to March 2019 are going to be better than expected. The pre-tax profit is going to be slightly better than the recently upgraded figure of £3.5m. Revenues have grown by one-fifth to £56m, with 10% organic growth, compared with a forecast of £54.9m.

Cash generation in the second half has beaten expectations, helped by advance payments by clients, and net debt is estimated to be lower than the £4.2m previously forecast. Debt with a higher interest charge has been repaid early.

SOLID STATE (SOLI)			493p
12 MONTH CHANGE %	+98.8	MARKET CAP £M	41.9

The order book at the end of March was £35.9m, which is 40% higher than the same time last year on a like-for-like basis. It is not stated how far ahead the order book stretches. It compares with forecast 2019-20 revenues of £68m.

The manufacturing business is achieving higher operating margins, but the distribution activities are growing fastest. The electronics distribution business has benefited from the integration of Pacer, which was acquired last year. A new facility was opened in Weymouth during March.

Although current forecasts suggest flat profit in 2019-20, there should be scope for upgrades, if not when the results are announced on 2 July, then later in the year if trading remains strong. The share price has nearly doubled since falling to a low one year ago. Solid State is in a strong position to make further acquisitions.

company news

Sigma takes its private rental development model into Scotland

Residential developer *www.sigmacapital.co.uk*

Sigma Capital is launching a new fund in Scotland to finance the development of private rental housing. The agreement with the fully listed PRS REIT, which was launched in 2017, gives it first refusal on developments in the regions of England but the deal does not cover Scotland. In the longer-term this deal will help to make Sigma less dependent on the PRS REIT, although it will continue to be the main source of revenues for years to come.

The Sigma Scottish PRS Fund will have initial funding of £43m. The government-backed Building Scotland Fund will provide a revolving credit facility of £30m and Sigma will provide £13m of investment as the credit facility is drawn down. This could finance five sites depending on their size. The focus will be the same type of new family rental home projects as is being supplied to the PRS REIT. The backing of the Scottish government is significant. In the longer term, there could be additional investment raised for the Scottish fund.

Sigma Scottish PRS Fund will have £43m

Sigma had net cash of £19.8m so it already has the investment required. A 2p a share dividend is being paid for 2018 and the dividend is expected to grow steadily.

Sigma generates fees of 4% of gross development cost, asset management fees of up to 1% of NAV and a development profit on its deals. House broker N+1 Singer has downgraded its pre-tax profit expectations for this year from £17.6m to £13.5m, which is still above last year's figure of £12.2m. The earlier sale of projects to the PRS REIT means that Sigma loses out on some profit in order to ensure that the REIT continues to progress, and smaller sites generate lower development fees. In the longer term, the PRS REIT is likely to raise more funds.

SIGMA CAPITAL (SGM)			111p
12 MONTH CHANGE %	-15.9	MARKET CAP £M	99.2

Nasstar set to achieve restructuring targets

Cloud computing *www.nasstar.com*

Cloud computing services provider **Nasstar** is two-thirds of the way through a three-year restructuring of its business. This is going well and when completed it will put Nasstar in a good position to make more acquisitions and integrate them efficiently.

Revenues were 7% higher at £25.7m in 2018 and 91% of these were recurring revenues. Higher software costs hit gross margins. However, the benefits of the restructuring, including the closure of datacentres, meant that EBITDA margin was still nearly 22% - not far off the target of 23% by the end of 2019. There was also a margin impact from the adoption of IFRS 15, which defers contract set-up revenues over the term of the contract.

NASSTAR (NASA)			12.25p
12 MONTH CHANGE %	+6.5	MARKET CAP £M	70.4

Underlying pre-tax profit edged up from £3.11m to £3.15m because the depreciation charge has risen on the back of investment. This excludes £4.2m of amortisation of acquired intangibles.

The balance sheet continues to strengthen. Net cash is £1.55m and this figure could more than double by the end of this year. The total dividend was raised by 50% to 0.09p a share, costing around £500,000. Cash generated from operations could be £5.3m after tax payments in 2019, leading to year-end net cash of £4.1m.

This year there will be a focus on expanding engineering resource and supply chain management efficiency. There are also further datacentre and office closures. Pre-tax profit is expected to improve to £3.6m this year and £4m next year. Kestrel Partners has trimmed its stake to just below 21%.

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Anexo accelerates after AIM quotation

Credit hire and legal services *www.anexo-group.com*

Dividend

Credit hire and legal services provider Anexo Group joined AIM last June, so it does not have a dividend track record, although it is one of the best-performing of last year's AIM new issues, with a 62.5% gain on its 100p placing price.

The first dividend of 1.5p a share reflects the fact that Anexo was quoted for part of 2018. Arden Partners forecasts a total dividend of 2.25p a share for 2019, which would be covered six times by earnings per share. A 3p a share dividend has been pencilled-in for 2020, with a reduced earnings cover of five times.

Net debt is forecast to rise from £17.3m at the end of 2018 to £26.3m at the end of this year. That is due to an increase in credit hire business which will lead to an increase in working capital requirements. Debt should fall the following year as working capital reduces as legal services become more important.

Business

Anexo focuses on the non-fault motorist and motorcyclists involved in an accident and, in particular, poorer claimants. It provides commercial credit hire after an accident and the legal services business claims the hire, repair and recovery charges from the insurer of the motorist at fault. The model is different to that of fellow AIM-quoted company Redde, which is dependent on the insurers and has been hit hard by the loss of a major client.

The credit hire business is called Edge and it gets business via referrals from small body shops and repairers. Edge has vehicle utilisation rates of more than 75% even though the fleet has been nearly doubled over the past year. The Bond Turner legal services division acts on all claims generated by Edge. That integrated operation and the fact that the business does not come from an insurer makes Anexo different from most rivals.

ANEXO GROUP (ANX)	
Price (p)	162.5
Market cap £m	178.8
Historical yield	0.9%
Prospective yield	1.4%

Anexo was growing before it floated, but the additional cash raised is enabling the growth rate to accelerate. This comes at a time when smaller firms are finding it hard to compete because of regulatory changes and a ban on referral fees.

In 2018, revenues improved from £45.3m to £56.5m and underlying pre-tax profit progressed from £14.6m to £15.7m. The number of senior fee earners rose from 66 to 89 during the year.

Last year, credit hire generated 60% of revenues, up from 55% in 2017. The group funded 31% more cases on the back of that growth, and this should generate significant legal services revenues. The success rate of cases is greater than 98%.

Arden upgraded its 2019 pre-tax profit forecast from £17.8m to £18.1m and the 2020 forecast from £19.4m to £20.1m. This is because of better than expected growth of the business. There has been a significant increase in the share price since the annual results. Even so, the shares are trading on 12 times prospective 2019 earnings.

Dividend news

Legal services provider **Rosenblatt** has yet to generate any benefits from its initial investment in its own litigation funding vehicle, but 2018 revenues grew by 19% to £12.5m. Underlying pre-tax profit was £4m. There was £13.4m in the bank at the end of 2018. The dividend of 2.8p a share is 12% higher than originally forecast when Rosenblatt floated last year. Next year a dividend of 4.5p a share is forecast on pre-tax profit of £7.2m. Longer-term, additional growth will come from a £2m investment in the company's litigation fund, which retains margin by funding clients' third-party costs. More cash could be invested in the litigation fund, which is focusing on less competitive overseas markets.

Self-storage outlets operator **Lok'nStore** increased its interim dividend by 10% to 3.67p a share, which is in line with recent policy and the final dividend should be increased by the same percentage. Management is pushing ahead with a programme of new openings. Cardiff and Exeter stores have opened since January and an existing site acquired in Hedge End, Southampton. There is a pipeline of eight contracted stores that will add 27% to trading space. The bank facility has been increased to £75m and lasts until 2024. Net debt is £23.7m so there is plenty of available cash to fund the growth.

Fryer and grease management services provider **Filta** increased revenues by 23% to £14.2m in 2018, while underlying pre-tax profit moved ahead from £1.81m to £2.2m. This is before any significant contribution from grease and drain management services provider Watbio, which was acquired at the end of 2018. Expected cost savings from the integration of Watbio appear to be on course to be delivered. A 2019 pre-tax profit of £3.8m is forecast and the dividend is set to be nearly doubled to 3.2p a share.

feature

Sluggish first-quarter trading on AIM

AIM started the year in a subdued manner although there are signs of improvement.

AIM trading in the first quarter of 2019 continued to be relatively weak due to economic uncertainty. Following the high trading levels last October, when the market went into reverse, there was a weakening of activity in November and December.

Trading in January and February can be weaker than most of the rest of the year, but March is normally much busier because of the flood of company results and other news that tends to come out at this time of the year.

This year, March was busier than February, but in terms of average number of daily trades it was slightly less busy than January, which is highly unusual. The February 2019 average number of daily trades was lower than for any month in 2018, except for August.

There was an average of 41,250 trades in March 2019, which was down from 44,796 in the same month last year. Although the comparative figure did include more than 47,000 trades during the month in Plus500, which has moved to the Main Market, and Faroe Petroleum, which has been taken over.

March was the month with the highest average daily value so far this year. The £257.8m figure was lower than the average of £283.3m generated in March 2018.

The busiest day during March was the 19th when there were 54,378 trades. They were valued at £331.6m, although that was lower than the £365.6m-worth of shares traded on 13 March. Online retailer ASOS put out a trading statement on 19 March, so this is likely to be part of the reason that trading was strong on that day.

Although trading levels appear poor compared with last year, they remain relatively good in terms of previous years. The average number of daily trades for the year so far is 40,279 and that would look impressive prior to 2017, when the average daily trades for the year was 45,625. Prior to that, the best year was 2014, with an average of 34,445 trades each day.

Back in 2014, there were around 1,100 companies on AIM valued at £71.4bn, compared with 904 companies with a market value of £97.6bn at the end of March 2019.

> The average number of daily trades is 40,279 so far this year

Most active

ASOS remains the most traded stock, with 96,155 trades in March, but it is no longer the largest in terms of value traded. That is Burford Capital, where £576.7m-worth of shares were traded during March, compared with £462m last March. Interestingly, the number of trades in the month was 42,568, up from 27,434 in the same month last year. This suggests that there is more interest from smaller shareholders because the average size of each deal has fallen.

Burford Capital currently makes up 7.35% of the weighting for the FTSE AIM 100 index, compared with 7.18% for mixer drinks supplier Fevertree Drinks and 4.94% for ASOS. Burford does not qualify for the FTSE AIM UK 50 index.

Consumer services is the most traded sector, unsurprising as it includes online retailers ASOS and boohoo, accounting for more than a quarter of all trades in the first quarter. Technology is the next most active sector, with 13% of total trades, followed by oil and gas with more than 11%.

The consumer services sector accounts for more than one-fifth of the value of AIM trades.

There are signs that the market is picking up, with AIM moving ahead during April. This could encourage more cautious investors to return to trading.

AIM TRADING IN THE FIRST QUARTER

	AVERAGE DAILY TRADES		AVERAGE DAILY VALUE (£M)	
MONTH	2019	2018	2019	2018
January	41,466	50,203	245.3	294.9
February	37,955	44,465	211.5	246.3
March	41,250	44,796	257.8	283.3

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feature

Ten-year investigation reveals audit failings

The judgement on the formal complaint by the executive counsel to the Financial Reporting Council concerning the auditing of the figures of Tanfield Group more than a decade ago provides some indications of the auditing process.

The Financial Reporting Council (FRC) has published the tribunal report on the formal complaint of misconduct against Baker Tilly and two of its then employees relating to the audit of AIM-quoted Tanfield Group and two subsidiaries. This is more than ten years after the relevant accounts were audited.

In September 2009, the forerunner of the FRC began investigating the preparation of the Tanfield accounts for 2007 and 2008. Nearly five years later, this led to the issuing of a formal complaint.

Respondents

Baker Tilly UK Audit LLP, now known as RSM UK Audit, along with Richard King and Steven Railton, were accused of misconduct by the Financial Reporting Council (FRC), which is the independent regulator for the accountancy profession.

Richard King was the partner responsible for the audit of Tanfield, because he was authorised to audit companies quoted on the stockmarket, and signed the audit opinion on 21 April 2008. Steven Railton was responsible for the audits of Tanfield subsidiaries Tanfield Engineering Systems Ltd and SEV Group Ltd and signed the audit opinions on 21 July 2008.

Audit

Baker Tilly began auditing Tanfield in 2005 and remains its auditor. The complaint relates to the audit of the 2007 figures. The activities cover a period between November 2007 and July 2008, when there was a profit warning issued by Tanfield and subsequent discussions about the going concern status of the subsidiaries.

That profit warning led to an 83% slump in the Tanfield share price. The fact that the subsidiary accounts were signed off after the profit warning is a major factor in the proceedings.

At the end of September 2008, Tanfield reported interims that included just over £75m of impairments and these were increased to £89.7m in the full-year figures for 2008. Nearly 50% of this figure was a write-down of goodwill and intangibles, but it also included a £22.2m inventory impairment and a bad debt write-off of £22.9m. The latter included a £6m write-off of part of one customer's debt and the full write-off of a £500,000 debt.

> There were impairment charges of £89.7m in 2018

Group inventories had quadrupled in 2007. Although that could partly be put down to acquisitions.

The FRC believes that the value of inventories and receivables should have been given a greater focus and scrutiny. There was an awareness that there were risks that money owed might not be paid. There were errors identified in inventories but there was deemed to be insufficient evidence of these errors being suitably followed up. There was also criticism about the sample sizes and the choosing of samples in the audit.

Time and cost

The case is extremely complex to cover fully in a short article, but the respondents were found guilty of misconduct.

The FRC says that one of the reasons that the proceedings took so long was that King and Railton were keen to vigorously defend themselves and they sought a judicial review of the decision to pursue the case. When they lost, they took the case to the Court of Appeal.

There were delays that were the fault of the tribunal, though. This and the negative effect on the individuals' incomes were taken into account as mitigation in the final decision.

Baker Tilly received a reprimand and was fined £750,000. King received a reprimand and was fined £30,000, while Railton received a reprimand and was fined f £35,000. The respondents were ordered to pay 42% of the tribunal's costs, although this should be covered by insurance.

The final report is more than 300 pages long and can be downloaded from http://www.rns-pdf.londonstockexchange.com/rns/1254W_1-2019-4-14.pdf.

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feature

Small companies' economic contribution

Smaller quoted companies are important contributors to employment and tax income in the UK.

Independent research provider Hardman & Co (www.hardmanandco.com) and the Quoted Companies Alliance have published data concerning the contribution of smaller quoted companies to the UK economy. They are estimated to employ more than three million people and make a substantial contribution to tax income.

The figures should be viewed as estimates and they cannot be 100% accurate because it is difficult to obtain exact figures when it comes to where people are employed and where tax is paid. They do provide a good indication, though.

It is easy to quibble with the exact figures, and it can be argued that they are too high, but they confirm the importance of smaller quoted companies to the economy.

Numbers

There are 1,249 small and mid-cap quoted companies (from now on known as smaller companies for ease of reference) and they account for one- fifth of total quoted market capitalisation, which is still £428bn. The top 100 companies account for the other four-fifths of quoted market capitalisation.

There are more than 2,000 quoted companies in London but those that are investment companies, REITS and companies which have their main listing on another stock exchange are excluded. Companies where trading in the shares is suspended at the time of the calculations are also excluded.

All the 816 relevant companies on AIM are included and there are 433 companies listed on the Main Market.

The figures have been taken from annual reports with a year end during 2018. Government figures do not necessarily correspond with the way information is published in the accounts. This means that assumptions are required to be made. However, smaller companies quoted in the UK tend to be predominantly UK based, particularly at the lower end of the scale.

> In 2017-18, smaller companies in the UK contributed more than £26.5bn in tax

Tax

Hardman estimates that in 2017-18 smaller companies in the UK contributed more than £26.5bn in tax income to the government. That is 5% of the total government tax income.

This figure is made up of corporation tax, income tax and national insurance. The data is not available for business rates and VAT, but it would certainly be substantial. These two areas generate more than £150m of government income. Stripping these out, smaller companies contribute 7.2% of corporation tax, income tax and national insurance income.

Smaller companies generated nearly 9% of corporation tax and 7% of income tax and national insurance contributions.

There is £4.8bn of corporation tax paid by smaller companies, although the total tax bill is not broken down so some of this could be paid overseas. The figure assumes all the corporation tax is paid in the UK, so it may be on the high side.

In the case of income tax and national insurance, Hardman assumes that three-quarters of the three million smaller companies' employees are employed in the UK. This leaves 2.28 million employees compared with the total number of income tax and national insurance payers of 32.7 million. There is also an assumption that those 2.28 million employees made the same average contribution as the whole of the tax-paying population. That is where the 7% share comes from.

VAT generates £125.3bn a year and the revenues of smaller companies will include zero-rated, or differently rated sales, as well as overseas business. That means that total revenues cannot be used to calculate the smaller companies' share. There is also no basis for calculating how much of the £27.8bn in business rates that they generate.

Employment

Smaller companies account for 42% of the employees of the relevant quoted companies. That is three million people. There are 27.3 million people employed in the private sector in the UK.

However, it is difficult to assess how many of the three million employees are employed in the UK.

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statistics

Market Performance, Indices and Statistics

AIM SECTOR INFORMATION

SECTOR NAME	% OF MARKET CAP	% OF COMPANIES
Financials	18.2	16.6
Industrials	16.7	17.3
Consumer services	14.1	11.2
Healthcare	13.1	10
Technology	12.1	12.9
Consumer goods	11	5.9
Oil & gas	7.6	11
Basic materials	5.4	13.1
Telecoms	1.4	0.8
Utilities	0.4	1.2

FTSE INDICES

ONE-YEAR CHANGES

INDEX	PRICE	% CHANGE
FTSE AIM All-Share	968.9	-7.9
FTSE AIM 50	5602.85	-6.1
FTSE AIM 100	5116.3	-6.3
FTSE Fledgling	9431.45	-13
FTSE Small Cap	5675.03	-3.2
FTSE All-Share	4067.98	-1.4
FTSE 100	7418.22	-1.2

COMPANIES BY MARKET CAP

MARKET CAP	NO.
Under £5m	147
£5m-£10m	115
£10m-£25m	177
£25m-£50m	130
£50m-£100m	129
£100m-£250m	116
£250m+	90

KEY AIM STATISTICS

Total number of AIM	904
Number of nominated advisers	28
Number of market makers	48
Total market cap for all AIM	£97.6bn
Total of new money raised	£44.9bn
Total raised by new issues	£67.9bn
Total raised by secondary issues	£112.8bn
Share turnover value (Mar 2019)	£9.6bn
Number of bargains (Mar 2019)	1.67m
Shares traded (Mar 2019)	71.6bn
Transfers to the official list	190

TOP 5 RISERS OVER 30 DAYS

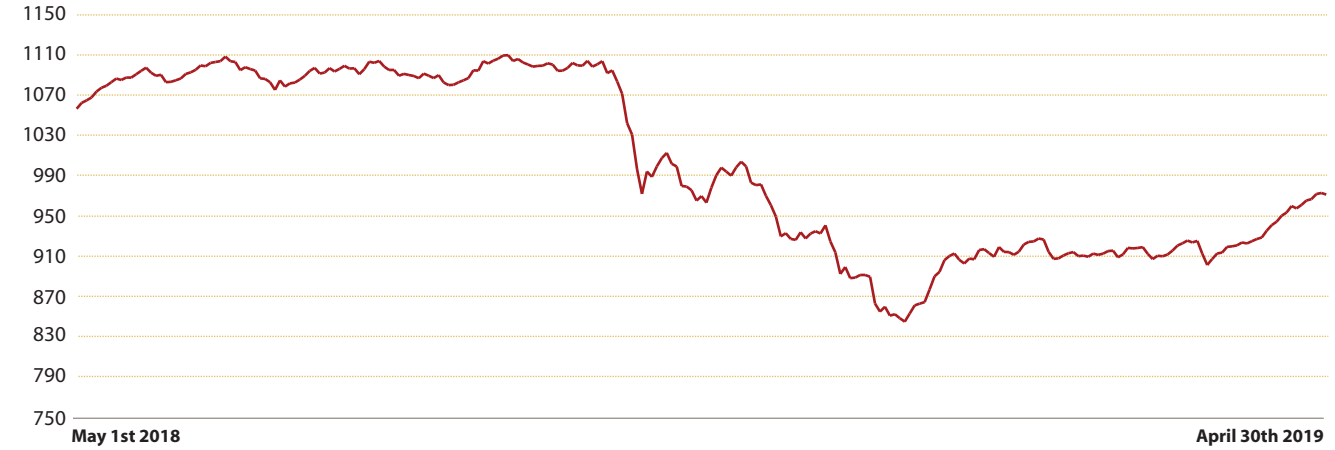
COMPANY NAME	SECTOR	PRICE (p)	CHANGE (%)
MX Oil	Oil and gas	0.375	+582
Bould Opportunities	Shell	0.055	+391
Zoltav Resources	Oil and gas	52.5	+320
Block Energy	Oil and gas	14.325	+267
Proton Power Systems	Cleantech	35	+241

TOP 5 FALLERS OVER 30 DAYS

COMPANY NAME	SECTOR	PRICE (p)	CHANGE (%)
7Digital	Media	0.205	-82.6
Jersey Oil and Gas	Oil and gas	73	-67.7
Eight Peaks Group	Financials	4	-62.8
N4 Pharma	Healthcare	3.95	-41.9
Premier Technical Services	Support services	73.5	-41.9

AIM - 1 YEAR INDEX CHANGE

Source: London Stock Exchange



Data: Hubinvest Please note - All share prices are the closing prices on the 30th April 2019, and we cannot accept responsibility for their accuracy.

HubInvest publishes AIM Journal
www.hubinvest.com

AIM Journal

AIM Journal is a monthly publication that focuses on the Alternative Investment Market (AIM) of the London Stock Exchange and the companies and advisers involved in the junior market.

Each month the publication includes information about AIM-quoted company news, changes to the brokers and nominated advisers, AIM statistics and general articles concerning AIM.

AIM Journal has been published for nearly a decade. There is no other publication of its type with a pure AIM focus and a sponsorship model, making it free to readers.

The pdf-based publication has an email database of company directors and advisers and an email with a link to the latest edition is sent out each month when the AIM Journal is published. The AIM Journal can also be accessed via http://www.hubinvest.com/AimJournalDownload.htm.

The readership via the email is predominantly a professional one. One-quarter of readers are company directors, one-fifth solicitors and accountants, one-fifth brokers and 15% PRs. The rest of the readership is made up of investors, journalists and other individuals.

AIM

The Alternative Investment Market (AIM) was launched on 19 June 1995 with ten companies that had a total market value of £82.2m at the end of the first day's trading. The total amount of money raised by new and existing companies in the remainder of 1995 was £96.5m.

More than 3,800 companies have joined AIM since then, although it should be remembered that some of these are the same companies readmitted after a reverse takeover. These companies have raised more than £112bn either when they join AIM or while they are trading on the junior market.

In 1995, there were 29,099 trades with a total value of £270.2m. These days it is unusual if there are not that many trades in a single day, although their total value tends to be less than £270m.

Companies that started out on AIM include online gaming operator GVC, healthcare properties investor Primary Health Properties, self-storage firm Big Yellow, animal genetics provider Genus, online gaming technology developer Playtech and student accommodation developer Unite Group – all of which are FTSE 250 index constituents.

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