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THE ONLINE MONTHLY FOR THE ALTERNATIVE INVESTMENT MARKET

AIM JOURNAL

## Small company research reassurance

The QCA, which campaigns for smaller quoted companies, says that the latest MIFID II policy statement by the Financial Conduct Authority (FCA) will enable smaller companies to continue to commission research that can be distributed to fund managers for free. This will include when a smaller company is raising additional cash in order to finance growth. There were worries that the EU's MIFID II directive could have made it more difficult to make small company research available to investors.

It is particularly important that research is available for small companies so that investors have sufficient information to make investment decisions and to keep up with progress. The European Commission had already accepted that smaller quoted companies should be viewed differently to their larger counterparts. The FCA statement is consistent with the European Commission's approach and provides further "easements to support the continued production of SME research", according to the QCA, which wants more to be done to encourage additional research on smaller companies.

In its policy document the FCA says: "We however remain open to considering the need for, and merit of, further clarifications to support SME research where robust evidence from stakeholders suggests that such clarification would help to support the functioning of markets without distorting execution decisions."

## Hurricane secures Lancaster funding

Hurricane Energy has raised more than £410m ($530m) to finance the development of the Lancaster field, west of Shetland. It is estimated that it will cost £359m ($467m) to bring this field into initial production. Hurricane believes that it could start to produce oil in the first half of 2019.

The share price has fallen back in recent months because the market knew that a large fundraising was required. A placing at 32p a share raised £234m and a convertible bond has raised a further £177m ($230m). The bond is convertible at 40p (52 cents) a share.

Hurricane is planning to negotiate a farm-out agreement with a partner to further develop the Lancaster field and there will be no more drilling on the licences until an agreement is reached. That could take one year. This means that, for the time being, newsflow will be dominated by the progress made in moving towards production at Lancaster. The planned early production system is expected to have operating costs of around $20/barrel and over a period of five to six years 62 million barrels of oil could be recovered from two wells. Production should plateau at 17,000 barrels of oil a day and the breakeven Brent oil price is $37/barrel.

## In this issue

general news

# Australian software demerger heads to AIM

Cloud-based document management software provider GetBusy is being spun out of ASX-listed software company Reckon and plans to raise £3m from a rights issue and join AIM at the beginning of August. GetBusy will use the cash to continue to further develop software and grow the business. GetBusy is developing a next-generation product called SCIM.

The two existing software products, SmartVault and Virtual Cabinet, generated revenues of £8m in 2016 – 82% of which is recurring – up from £6.8m the previous year. These products are making a profit before the costs of product development. There was a £1.4m loss before interest, depreciation and amortisation, with £700,000 specifically spent on SCIM, which is still at least two years away from launch. Churn rates are low at around 1%. Accounting firms generate the majority of revenues and GetBusy is trying to expand in other sectors. There is also a focus on securing larger clients in order to increase average revenue per user.

GetBusy assessed different stockmarkets and decided on AIM, partly because most of the team and revenues are currently in the UK. However, the growth is coming from the US and Australasia. There are currently 51,000 paying customers and 617,000 users that have signed up to the company's online portal and are not paying for any service.

SCIM is being developed in order to make it easier for businesses to interact with customers and become more organised and productive. SCIM can eventually be offered to the existing customer base as well as taking the group into new areas.

# CityFibre connects

Fibre-optic infrastructure developer CityFibre Infrastructure has more than doubled its market capitalisation by raising £200m at a placing price of 55p a share, with up to £15m more to come from an offer for subscription. The acquisition of wholesale communications services provider Entanet International will cost £29m and the rest of the cash will go towards expanding CityFibre's fibre networks in existing and new cities, as well as constructing fibre connections for the residential market. Entanet will help CityFibre to generate revenues from its fibre networks. The placing price is higher than that of the previous fundraising 18 months ago, which was at 50p a share, although CityFibre raised £16.5m at 60p a share when it joined AIM at the beginning of 2014.

# Nexus sets foundation for acquisitions

Housebuilding infrastructure services provider Nexus Infrastructure has joined AIM so that it can gain access to financial backing for acquisitions. Although £35m is being raised by existing shareholders via a placing at 185p a share, the company, which is valued at £70.5m, is not raising any new money. Nexus has cash in the bank and that could finance a deal but any more acquisitions are likely to require share issues. BlackRock, Ruffer and Hargreave Hale have all taken significant stakes in Nexus.

The current management has owned and run Tamdown, which provides earthworks, remedial, highways and substructures services, for 17 years and started the TriConnex utility infrastructure connections business in 2011. The latter is growing fastest and it has moved into new areas such as water and fibre connections.

In the year to September 2016, revenues grew from £130.9m to £135.7m. That growth appears modest but a change in the mix of business helped underlying pre-tax profit improve from £9.4m to £11m. Tamdown's revenues were barely changed but it shed lower-margin work so operating margins improved from 5.3% to 8.4%. TriConnex also improved its profit contribution. However, the latest interim profit was lower because of delays to contracts for Tamdown. At the end of May 2017, the group order book was worth £187m.

The business is highly cash generative, with capital expenditure lower than depreciation in recent years. Net cash was more than £23m at the end of September 2016. Payments on account were £16.4m at the end of the financial year. Nexus plans to pay dividends that are covered three times by earnings and it even promises an interim dividend of around 2p a share with an ex dividend date of 17 August.

advisers

# Arden raises £5.1m as loss increases

Broker Arden Partners has raised £5.1m at 40p a share – a premium of 1.3% to the then market price and a 25% premium to the share price prior to the announcement of the placing. The placing was oversubscribed. Luke Johnson bought 1.25 million new shares, taking his stake to 10.7%. New chief executive Donald Brown acquired an initial 200,000 shares.

In the six months to April 2017, revenues improved from £2.74m to £2.9m but the underlying loss increased from £708,000 to £1.17m. The mix of revenues has changed, with the corporate finance division revenues declining from £1.41m to £786,000 and the shortfall being made up by equities trading, which benefited from the arrival of a new team at the end of 2016. However, variable costs were much higher, partly due to settlement costs for former employees. There was £3.53m in the bank at the end of April 2017 so the placing will more than double the cash pile.

Arden has just floated Israel-based data processing network technology developer Ethernity Networks, which raised £15m (£13.7m after costs).

WH Ireland says that its broking and wealth management operations have both performed strongly in the six months to May 2017 and the group figures will "show a significant improvement on those for the previous year". The wealth management division had more than £3bn of assets under administration, with the discretionary fund management service growing most rapidly.

The broker's financial year end is being changed from November to March. There will be 16-month results to March 2018. The figures for the six months to May 2017 will be reported before the end of July. The board is "cautiously optimistic" about the rest of the financial period.

The broking business has benefited from a significant increase in transactional revenues and the pipeline of potential corporate business is the best it has been for many years.

■ Share, the owner of execution-only broker The Share Centre, says share trading continues to be strong. Management had already stated that first-quarter trading was a record and first-half revenues and profit are expected to be much better than expected. These figures will be published on 9 August.

The Share Centre started to provide services to share registrar Computershare during the second quarter and it has migrated investment trust accounts from Invesco, with 95% of these accounts being retained.

**ADVISER CHANGES - JUNE 2017**

| COMPANY | NEW BROKER | OLD BROKER | NEW NOMAD | OLD NOMAD | DATE |
|---|---|---|---|---|---|
| **SEC Group** | Peterhouse/WH Ireland | WH Ireland | WH Ireland | WH Ireland | 01/06/17 |
| **Watkin Jones** | Jeffries Hoare Govett | Peel Hunt | Peel Hunt | Peel Hunt | 01/06/17 |
| **Savannah Resources** | finnCap | Beaufort | Northland | Northland | 05/06/17 |
| **Falanx Group Ltd** | Turner Pope/Whitman Howard | Whitman Howard | Spark | Spark | 06/06/17 |
| **W Resources** | Turner Pope/SI Capital | SI Capital | Grant Thornton | Grant Thornton | 14/06/17 |
| **Conviviality** | Investec | Investec/Zeus | Investec | Investec | 16/06/17 |
| **Cogenpower** | Peterhose/Allenby | Allenby | Allenby | Allenby | 19/06/17 |
| **Inspirit Energy Holdings** | Peterhouse/SVS | Peterhouse/SVS/ Stockdale | Beaumont Cornish | Stockdale | 26/06/17 |
| **ITM Power** | Investec | Zeus | Investec | Zeus | 29/06/17 |
| **Taptica International Ltd** | Berenberg/finnCap | finnCap | finnCap | finnCap | 29/06/17 |

## company news

# Molins builds cash pile as it gives up tobacco to focus on packaging machinery

*Packaging machinery* *www.molins.com*

**Molins** is selling its tobacco machinery division and a property in Canada, which leaves it with a large cash pile and a remaining business that has a growing order book.

GD Spa has acquired the tobacco machinery division for £30m and it will benefit from consolidating its position in a market that has too much capacity. There will be £1.5m held in escrow for up to two years and £2.7m of tax payments and deal costs. That leaves £25.8m, of which £2.7m will be going to the UK pension scheme. The property in Ontario has been sold for £5.9m, although a new site will cost £1m to fit out. The exceptional gain on the property disposal is £4.4m.

## Molins could end 2017 with cash of £27m

| MOLINS (MLIN) | | | 136.5p |
|---|---|---|---|
| 12 MONTH CHANGE % | +133.3 | MARKET CAP £M | 27.7 |

Molins can focus on its packaging machinery business, which supplies cartoning, robotic packaging and other packaging machines. Pharma, healthcare, consumer goods and beverages are the main sectors that Molins is addressing and these are all growing markets. The division is expected to generate revenues of £49.8m this year and £54.8m in 2018, while the pre-tax profit is expected to double from £1.29m to £2.6m.

Molins could end the year with net cash of £27m. Molins also has a site in Buckinghamshire where it is trying to secure planning permission for residential development. If an appeal is successful, this property could be worth £15m. The company's pension funds are likely to continue to require an additional payment of £1.8m each year in order to reduce their deficits but there is plenty of financial scope for acquisitions to increase the scale of the group. The cash covers the majority of the current valuation of Molins.

# Redhall restructuring unlocks opportunities

*Engineer* *www.redhalgroup.co.uk*

A fundraising and loan conversion have transformed the balance sheet of engineer **Redhall**. The group has a strong order book at improving margins and the reduction in debt will provide the working capital required to exploit these opportunities.

A placing was oversubscribed and raised £9.54m at 10p a share – a premium of 11% to the then market price. Debt of £3.75m is being converted into shares at the same price. In the six months to March 2017, revenues fell from £21.4m to £19m and the underlying loss was slightly lower at £620,000. Net debt was £9.3m at the end of March 2017. Increased working capital requirements mean that net debt is expected to be £2.9m at the end of September 2017.

| REDHALL (RHL) | | | 10p |
|---|---|---|---|
| 12 MONTH CHANGE % | + 66.7 | MARKET CAP £M | 33.3 |

The order book was worth £32m in June, with nuclear demand strong. Redhall's specialist manufacturing expertise means that there is limited competition, particularly in areas such as doors for nuclear sites. There is a pipeline of potential business that means Redhall could have to invest in increasing capacity and efficiency. This can be done now the balance sheet has been improved.

Wayne Pearson, who used to run a division of Melrose, has been appointed as chief operating officer. This year, revenues are going to be around £44m for the third year running but an underlying pre-tax profit of £1.5m is forecast. In the year to September 2018, a pre-tax profit of £3.6m is forecast on revenues of £53.1m. The 2017-18 prospective multiple is relatively modest at less than 13. There is potential for upgrades now that the balance sheet is stronger and Redhall is in a better position to secure even more business.

## company news

# Animalcare broadens its product range with earnings-enhancing Belgian reverse takeover

*Animal health* *www.animalcare.co.uk*

Ecuphar NV is reversing into AIM-quoted **Animalcare** to create a wider-ranging European animal health company focused on veterinary drugs. Animalcare has been seeking a way of gaining increased scale and the deal should be earnings enhancing in the first full year of ownership.

Belgium-based Ecuphar is much larger than Animalcare, whose shareholders will own around 37% of the enlarged group. The group will have direct sales forces in seven countries and export to 50 countries. The portfolio of products includes 50 licensed drugs and eight vaccines.

Animalcare will issue 28.75 million shares and pay £34m in cash for Ecuphar. A placing at 350p a share, a 10.8% discount to the share price at the time, raised £30m. At the placing price the combined business is valued at £209.7m. Existing shareholders also raised £2.6m from a sale of shares.

## A placing at 350p a share raised £30m

The board will be dominated by Ecuphar, which has a track record of making acquisitions and integrating them. Ecuphar will contribute chief executive Chris Cardon, who founded the company and will own 23.1% of the enlarged group, and finance director Walter Beyers, as well as non-executive director Mark Coucke, who will also have a 23.1% shareholding. Existing Animalcare boss Ian Menneer becomes chief operating officer, while James Lambert and Nick Downshire remain as non-executives. There will be two other new non-executives.

In 2016, Ecuphar generated revenues of £68.4m and EBITDA of £8.9m. Net debt was £23.8m at the end of 2016. Panmure Gordon had forecast Animalcare would make a 2016-17 pre-tax profit of £3.6m, up from £3.2m, on revenues of £15.9m. There was £7m in the bank at the end of 2016.

| ANIMALCARE (ANCR) | | | 360p |
|---|---|---|---|
| 12 MONTH CHANGE % | + 50.9 | MARKET CAP £M | 76.4 |

The European animal health market is valued at $8bn and growing at 5% a year. The combined group will benefit from cross-selling and taking on the direct distribution of its own products in the countries where it has direct sales forces. The year end will be changed to December and the group will continue to pay dividends – the first will be an interim for the first half of 2017.

# Clinical studies progress at Evgen Pharma

*Pharmaceuticals* *www.evgen.com*

**Evgen Pharma** is making good progress with its lead compound, SFX-01, and the first patients have been dosed in the phase II study for subarachnoid haemorrhage and the phase IIa study for metastatic breast cancer. Safety and tolerance of the treatments has already been shown to be excellent. Both these potential treatments have billion dollar markets and the two studies will report in 2018. There is also positive pre-clinical data for the treatment of multiple sclerosis.

| EVGEN PHARMA (EVG) | | | 17.5p |
|---|---|---|---|
| 12 MONTH CHANGE % | + 6.1 | MARKET CAP £M | 12.8 |

Sulforaphane, which is found in broccoli, has known anti-cancer and neurological properties and Evgen is the only company that has the technology to make a stable, synthetic form of the molecule called Sulforadex. Evgen has built up an IP portfolio around its manufacturing expertise. There is already significant academic interest in Sulforaphane and there are 47 clinical trials evaluating the molecule. They are using unstable versions of Sulforaphane.

Evgen has limited funds so it needs to concentrate on its existing trials and find collaborators to help finance clinical trials in other areas. There was £3.86m in the bank at the end of March 2017, after a cash outflow of £3.27m, and there are R&D tax credits coming in later this year.

company news

# Autins seeks to regain the trust of investors after post-flotation disappointment

*Acoustic and thermal products* *www.autins.co.uk*

| AUTINS (AUTG) | | | 135p |
|---|---|---|---|
| 12 MONTH CHANGE % | N/A | MARKET CAP £M | 29.6 |

Acoustic and thermal insulation products developer Autins disappointed very early on in its AIM career and this led to a share price slump. The latest interims show limited progress but the second half is set to be stronger and the longer-term outlook is positive.

The automotive sector is the company's main market, although it is trying to broaden its customer base. Delayed orders from a major customer led to a downgrade in expectations for this year. Autins made a small loss in the first half even though revenues recovered from £10.7m to £12.2m. That is because the overhead base has been built up in anticipation of higher revenues. The 0.4p a share dividend indicates the confidence that management has in the recovery and growth prospects.

Autins is trying to broaden its customer base

Autins has manufacturing and assembly operations in the UK, Germany and Sweden. Products include door blankets, battery insulation and bonnet liners and Autins is trying to sell more of its product range to each customer. Autins' Neptune material is gaining approvals in areas such as building and it has won its first automotive orders.

House broker Cantor Fitzgerald forecasts an improvement in underlying full-year pre-tax from £900,000 to £1.6m and it expects profit to more than double in the year to September 2018. The shares are trading on just over 21 times 2016-17 earnings, falling to eight the following year. The share price remains below last August's placing price of 168p and well below the peak of 240p at the end of 2016.

# Richland signs up sapphire customers

*Sapphire miner* *www.richlandresourcesltd.com*

| RICHLAND RESOURCES LTD (RLD) | | | 1.03p |
|---|---|---|---|
| 12 MONTH CHANGE % | - 31.3 | MARKET CAP £M | 4.52 |

Richland Resources has signed up two important customers for the gemstones produced by its Capricorn sapphire project in Australia. Royal Touch will be using the sapphires in jewellery that will be sold via home shopping TV channels; China Stone will supply small gemstones to upmarket watchmakers and jewellers. Royal Touch is also taking all of the heat-treated green sapphires, depending on size, that Richland can supply. Richland has negotiated prices with each of these customers.

These deals will take time to take effect but they should start to be more significant in the second half of this year. Next year's sales are likely to be an important marker of progress. In 2016, revenues grew from $704,000 to $1.35m, while there was an operating cash outflow of $1.7m. A further $341,000 was generated in sales of a mixture of high-quality and low-quality stones during the first quarter of 2017, while project level costs were $670,000.

A placing at 0.75p a share raised £1m at the beginning of the year and $500,000 of loans were converted into shares at the same price. There was cash of $326,000 at the end of 2016, with a further $274,000 of restricted cash deposits. Unpaid director fees of $147,000 were paid in shares this year. Any need for additional working capital could depend on how successful the two initial deals are and if additional deals are secured.

Richland has been investing in operational improvements at its mine, which will take production to 1.2 million carats a quarter. Richland has set up the #Ausapphire Twitter name in order to promote its sapphires and the fact that they are ethically mined. Management believes that many customers will be reassured that the gemstones are not coming from conflict zones.

# Palace regional expertise yields growing income

*Property investor* *www.palacecapitalplc.com*

## Dividend

Property investor Palace Capital paid its maiden dividend of 2.5p a share for 2013-14 and the dividend has increased significantly since then. It jumped to 13p a share the following year and then improved to 16p a share. The total dividend for the year to March 2017 was 18.5p a share. These dividends have all been covered by underlying earnings per share.

A modest dividend increase to 19p a share is forecast for this year but Palace generally beats expectations.

## Business

One of the attractions of Palace is its experienced management team, which is headed by chief executive Neil Sinclair, the founder of Sinclair Goldsmith Chartered Surveyors. He has more than five decades of experience in the property sector. Management has seen the ups and downs of the property market over the decades so they are not attracted by fads and fashions. They also try to buy companies that own the properties so that stamp duty is not levied on the transaction. Palace is a lean organisation with eleven employees.

The strategy is to refurbish and reposition properties and this boosts their asset value and rental income. Non-core assets are sold when a suitable price can be secured. The current portfolio is spread around England but there is nothing in London because the regions provide higher yields, which tend to be less volatile. There is also less competition for many of these secondary assets.

The majority of the assets are in Yorkshire and the Midlands and they are mainly made up of offices, industrial and leisure properties. Palace started out as a shell and it made its first property acquisition in October 2011 but it was the £40m acquisition of a portfolio of properties from Quintain Estates & Development that provided the real impetus for the company. Including proceeds from disposals, the value of that portfolio of properties nearly doubled over three years.

It has been difficult to repeat the success of the Quintain purchase but Palace has managed to find other properties and property portfolios that it can add value to. It has tended to make three significant acquisitions a year.

A new planning application has been put in for Hudson House in York, where there is already permission for a change of use. Palace wants to develop 127 residential units, offices and commercial space on the ground floor.

The underlying NAV at the end of March 2017 was 443p a share. The discount to NAV is 15% and the prospective yield is 5%. Forecast NAV growth is currently modest but the eventual outcome will depend on the deals that Palace can secure. Management is confident that there are plenty of opportunities. In the longer term, Palace wants to move to the Main Market but it needs to be bigger to do that.

| PALACE CAPITAL (PCA) | |
|---|---|
| Price (p) | 377.5 |
| Market cap £m | 94.3 |
| Historical yield | 4.9% |
| Prospective yield | 5% |

# Dividend news

Profit growth is outstripping revenue growth at **D4T4 Solutions** as software sales become increasingly important. Data analytics is dominating the revenues of the business and this is a fast-growing global market. D4T4 has secured a partnership with Microsoft and the company's Cerebus software is being offered in conjunction with Microsoft Azure. This has yet to make a contribution. In the year to March 2017, D4T4's pre-tax profit improved from £3.5m to £4.2m, which was slightly better than expected, as was the total dividend of 2.3p a share. Earnings per share are likely to be flat this year at 10.1p because of a higher tax rate.

Gas and electrical services provider **Bilby** regained some of its lost momentum in the second half of the year to March 2017, following delays and lost work in the first half. The full-year outturn was better than expected even after the recent trading statement. Revenues doubled to £64m, helped by acquisitions, while underlying pre-tax profit improved from a restated £2.2m to £3.32m. The total dividend has been cut from 2.75p a share to 1.75p a share but there is scope for recovery to 2.5p a share this year. Revenue visibility has improved and a profit of £4.8m is forecast for 2017-18.

Property fund manager and investor **First Property** increased assets under management by more than a third, to £477m, in the year to March 2017. This helped fund management fee income to increase from £1.68m to £2.45m. Pre-tax profit improved from £7.35m to £9.14m. The total dividend was increased by 3% to 1.55p a share. Management believes that there are opportunities in the UK commercial property market and a UK-focused fund was launched at the beginning of this year. In Poland, secondary commercial property yields are still attractive but Romania remains a tough market.

expert views

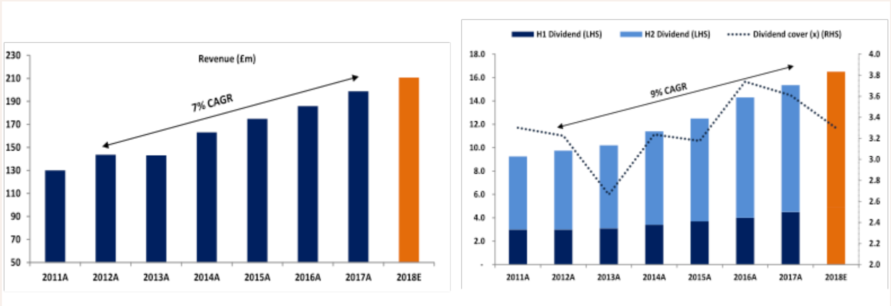
## Expert view: The broker

# A track record of consistently delivering

**By Michael Campbell**

Latham (James), an importer and distributor of wood-based sheet materials and joinery-quality hardwoods and softwoods, hardwood flooring and other products, recently published full-year results for the year ending March 2017.* The business produced another solid year, outperforming expectations. Revenue was +7% year on year at £199m and ahead of our forecasts. Gross profit benefited from both higher volumes sold and higher prices as a result of weaker sterling, and as a result was +70bps higher at 18.2% (17.5% forecast). The benefits flowed through the P&L where EPS was 55.4p, +4% year on year and c. 18% ahead of our forecasts. The board recommended a final dividend of 10.85p, taking the total dividend to 15.35p, which was well covered by earnings at 3.6x.

**EXHIBITS / REVENUE (£M) AND DIVIDEND GROWTH (P; X)**




**Source:** Company Data; Northland Capital Partners estimates

### Healthy growth trends continue

The business is well diversified across multiple sectors of the UK economy, with no particular exposure to new build or any particular customer. The business's end products are used in both the public and private sectors and top ten customers account for less than 11% of revenue. The business produced a strong revenue performance throughout the cycle, where revenue has shown consistent growth over the past five years, increasing at a CAGR of +7%. We expect revenue to grow by an estimated +6% year on year in the 2018 financial year to £211m. Increasing sales combined with prudent cost control has a positive impact on EBITDA margins in particular. The business achieved a gross margin above 18% and EBITDA margin was 8% for the year to March 2017. Although we expect to see a lower gross margin of 17.5% to March 2018, operational gearing benefits should support EBITDA margins at 7.7%, 40bps higher than our previous forecasts for the year to March 2018 at 7.3%.

Furthermore, the business has consistently delivered healthy dividend growth. Dividends have grown by a CAGR of c. 9% over the past five years to March 2017. We expect to see further dividend growth for the year to March 2018 and the dividend remains well covered by earnings at 3.3x and also points to a dividend yield of 2%.

### Improving efficiency

The balance sheet was in strong shape at the end of March 2017, with over £16m of net cash. This is largely due to capital expenditure relating to the development of the Wigston site being deferred into 2018. A move to the new upgraded site at Yate is planned during July 2017 and negotiations are at an advanced stage for the construction of the new site at Wigston, where relocation is expected by the end of March 2018.

The investment in these facilities will help improve efficiency in the business in addition to the availability of a wider product range for customers.

### Increasing sales on stable costs

In summary, increasing the scale of revenues and prudent cost control, will not only help margins but ultimately this will increase returns, drive the share price and create value for shareholders.

Management has a track record of outperforming expectations and at c.15x earnings for the year ending March 2018 the entry multiple does not appear demanding. A solid track record of outperforming, combined with healthy growth, could very well transpire into a further re-rating of the stock in our view.

**Northland Capital Partners, acts as nominated adviser and broker to Latham (James) Plc*

MICHAEL CAMPBELL is a Director of Research at Northland Capital Partners Limited

expert views

*Expert view: The lawyer*

# New prospects for prospectus regulation

**By Deirdre O'Neill, Corporate Associate, Marriott Harrison LLP**

The European Commission has officially adopted revised rules on the issuance of prospectuses. The new EU Prospectus Regulation (the Regulation) is intended to broaden the attractiveness of offering and listing securities across the EU. The Regulation enters into force on the twentieth day following its publication in the Official Journal, which is said to be in the next few weeks. A staged approach is then taken to implementation, with the majority of the Regulation's provisions applying from two years after the date of its entry into force. The Regulation will replace the Prospectus Directive 2003/71/EC.

The EU aims to use the capital markets union project to assist companies and businesses to gain access to diversified sources of capital and funding across Europe. Irrespective of the looming UK 'ex-member' status, it is important to be aware of this Regulation for clients or businesses seeking to raise capital in the EU securities markets.

## Reasons for revision

Prospectuses are a crucial source of information for investors and one of the key tools for companies wishing to raise capital. The Regulation is part of the European Commission's commitment to simplifying EU laws and making them more effective and efficient.

The aim of the Regulation in the context of the capital markets union is to facilitate access to financial markets for companies. This new type of prospectus is available for SMEs, small mid-caps (companies with under 500 employees) admitted to an SME growth market or small issuances by unlisted companies.

## Key points

The Regulation will streamline administrative procedure, simplify the rules and make it cheaper and easier for small businesses to access capital markets by implementing some of the following attributes:

## E-prospectus lite

Unless investors request them, paper prospectuses are no longer required. The EU growth prospectus is designed to be a slimmer prospectus for smaller issuances and for smaller companies, by providing a considerably less cumbersome regime with fewer requirements for issuing a prospectus.

## Small capital raising exemption

The new prospectus rules will not apply to issues of securities valued below €1 million (previously, the limit was set at €100,000). This change makes it easier and cheaper for SMEs to raise funding in the EU as member states are now able to exempt 'small' issuers from the compulsion to issue a prospectus, by setting a threshold of up to €8 million for domestic markets.

Companies that are listed on a public market that wish to issue additional shares or raise debt (corporate bonds) are also able to take advantage of this simplified prospectus.

## Frequent issuer fast track

Companies that issue securities on a frequent basis are able to use the Universal Registration Document (URD). This acts as a form of template registration which contains all of the necessary information about the company.

Issuers that maintain an updated URD can benefit from five-day fast-track approval, which simplifies the procedure for issuers already known to the market.

## Single access point

For the first time, the European Securities and Markets Authority (ESMA) will provide a free online search access to all prospectuses approved in the European Economic Area.

## Consequences for current filings

The Regulation should result in the following consequences for current issuers:

- Issuers who file their EU prospectus in the first half of the year will need to continue to file EU prospectuses for 2017, 2018 and 2019
- Issuers who file their EU prospectus in the second half of the year will need to continue to file EU prospectuses for 2017 and 2018.

## Conclusion

It is hoped that, in spite of Brexit, the necessity of the Regulation will be recognised as a complementary cohesion for the markets throughout Europe and the UK and will serve as a more relaxed route, while maintaining a high degree of investor protection.

DEIRDRE O'NEILL is an Associate in Marriott Harrison LLP's corporate department and assists AIM companies and nomads in corporate and AIM regulatory matters.

feature

# Impatient companies lose sight of long view

AIM-quoted companies can lack the foresight to ride out the ups and downs of the stockmarket. Fusionex is an example of this. Patience has paid off for others, though.

Big-data software developer Fusionex International was initially a market favourite and the share price soared. The big-data investment fad, which gave companies involved in the sector ridiculous valuations, ended and the share price fell back. Fusionex management believes that the decline has gone too far and has lost patience, leading to its departure from the junior market.

Companies' tend to give up on their quotations too easily, especially in the past when the general stockmarket has been weak. They dabble in being quoted rather than appreciating that it is a long-term commitment and responsibility, particularly to the shareholders. It is true of non-UK and UK-based companies. There are sometimes difficulties in building up investor interest in some overseas companies, although this is not true for Malaysia-based Fusionex.

The Fusionex share price peaked in early 2014 at 748p, which was more than 80 times earnings and more than 30 times revenues at that time. The problem the board appears to have had with AIM was a sharp drop in the share price at the time of the announcement of the 2014-15 figures when there was criticism of the poor cash generation of the business – which did improve last year.

One thing that should be acknowledged about Fusionex is that it has beaten revenue forecasts. In June 2014, Edison forecast 2015-16 revenues of MYR86.5m and the outcome was MYR94.6m. Much higher costs than forecast mean that profit is more modest and lower than three years before.

A lack of liquidity was blamed by management for the proposed cancellation but there were 293 deals in April, the last full month prior to the announcement of the proposal. Mentioning Brexit made it seem like Fusionex were seeking any excuse it could.

## Rules

There has been criticism of the rule that allows companies to leave AIM if at least 75% of shareholders voting at a general meeting agree. To put this into context, for most of the first decade of AIM companies could leave as long as they gave at least 20 days' notice. There was no need to consult shareholders. In July 2003, AIM consulted on a change to the rules on cancellations so 75% of shareholder votes had to be in favour of a cancellation. There was support for the changes and "most respondents supported the 75% consent level", according to the London Stock Exchange. Rule 41 came into force at the end of 2003.

The main difference between AIM and primary listings is that where there is a controlling shareholder – any individual or related group of shareholders that has 30% or more of the share capital – a company requires the majority of the votes from the other shareholders in order to cancel the listing.

At Fusionex's general meeting, more than 85% of the shares voted were in favour and it stated that the figure would have been more than 75% without the employee benefit trust. The Fusionex directors own 41.9% (22.8 million shares), which is more than 50% of the 44 million shares voted in favour of the cancellation resolution but even excluding these votes there would be a majority in favour of the cancellations – although 75% of independent shareholders would not have been in favour.

Fusionex has appointed BritDaq to provide a matched bargain trading facility. This may be a cheaper alternative but it is not a cure for a lack of liquidity.

## Patient management

An example of how an international company can prosper if it is patient with its quotation is concrete-levelling equipment supplier Somero Enterprises Inc. Management, in contrast to its counterparts at Fusionex, was aware that it had been supported by institutional shareholders in particular.

The global recession hit the international construction market and Somero was not immune and it fell into loss. The share price slumped to 11.5p at the end of 2008, having reach 157p at its peak in 2007. Even by the end of 2012 the share price had only partly recovered, to 32p. Somero slumped into loss because of the recession but once it returned to profit the share price recovery took off and the recent peak was 342p.

By staying quoted, Somero did not upset its existing investors and it meant that new investors had confidence that the company would stick around, thereby making the shares even more attractive when the profit recovered.

It is the nature of stockmarkets that companies will go out of favour, particularly if they have made mistakes and missed forecasts, but a company with a good underlying business will be able to recover from these episodes and rebuild investor confidence.

statistics

# Market Performance, Indices and Statistics

## AIM SECTOR INFORMATION

| SECTOR NAME | % OF MARKET CAP | % OF COMPANIES |
|---|---|---|
| Consumer services | 19.1 | 10.4 |
| Financials | 15.8 | 16.9 |
| Industrials | 15.4 | 16.3 |
| Healthcare | 12.8 | 9.3 |
| Technology | 11.4 | 12.2 |
| Consumer goods | 9.7 | 6.1 |
| Oil & gas | 7.1 | 10.7 |
| Basic materials | 6.9 | 14.3 |
| Telecoms | 1.3 | 1.1 |
| Utilities | 0.5 | 1.2 |

## FTSE INDICES

ONE-YEAR CHANGES

| INDEX | PRICE | % CHANGE |
|---|---|---|
| FTSE AIM All-Share | 965.98 | +36.5 |
| FTSE AIM 50 | 5456.89 | +36.1 |
| FTSE AIM 100 | 4844.78 | +43.3 |
| FTSE Fledgling | 9995.98 | +33.9 |
| FTSE Small Cap | 5584.96 | +24.9 |
| FTSE All-Share | 4002.18 | +13.8 |
| FTSE 100 | 7312.72 | +12.4 |

## COMPANIES BY MARKET CAP

| MARKET CAP | NO. |
|---|---|
| Under £5m | 167 |
| £5m-£10m | 101 |
| £10m-£25m | 187 |
| £25m-£50m | 155 |
| £50m-£100m | 142 |
| £100m-£250m | 126 |
| £250m+ | 88 |

## KEY AIM STATISTICS

| | |
|---|---|
| Total number of AIM | 966 |
| Number of nominated advisers | 33 |
| Number of market makers | 48 |
| Total market cap for all AIM | £95.6bn |
| Total of new money raised | £101.6bn |
| Total raised by new issues | £42.1bn |
| Total raised by secondary issues | £59.4bn |
| Share turnover value (2017) | £25.9bn |
| Number of bargains (2017) | 4.44m |
| Shares traded (2017) | 426.4bn |
| Transfers to the official list | 183 |

## TOP 5 RISERS OVER 30 DAYS

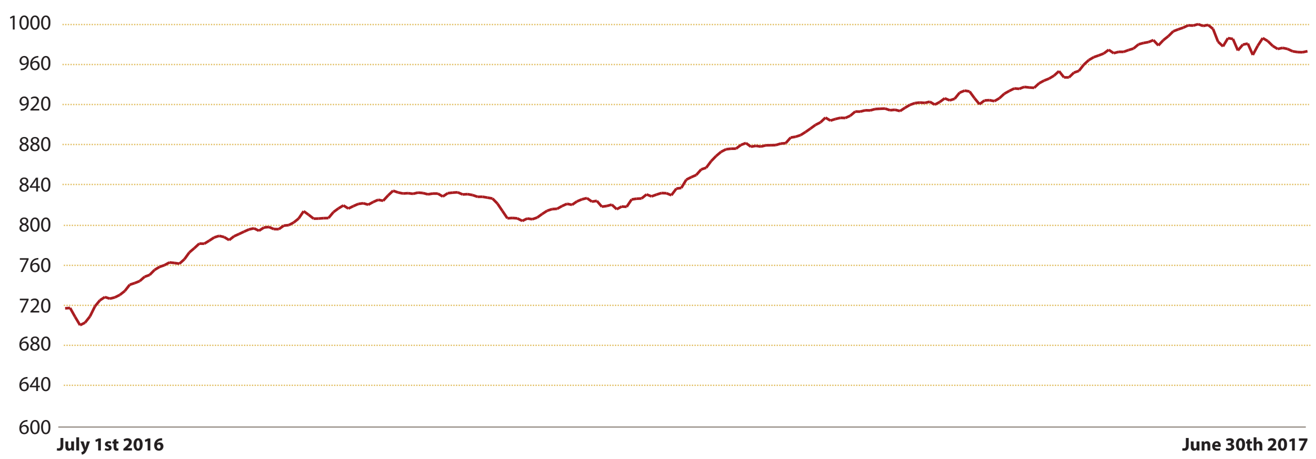
| COMPANY NAME | SECTOR | PRICE (p) | CHANGE (%) |
|---|---|---|---|
| Bellzone Mining | Mining | 1.7 | +501.8 |
| Great Western Mining Corp | Mining | 1.69 | +333.3 |
| UK Oil & Gas Investments | Oil and gas | 2.78 | +170.7 |
| Empyrean Energy | Oil and gas | 7.5 | +122.2 |
| Clear Leisure | Leisure | 1.42 | +111.1 |

## TOP 5 FALLERS OVER 30 DAYS

| COMPANY NAME | SECTOR | PRICE (p) | CHANGE (%) |
|---|---|---|---|
| Mayan Energy Ltd | Oil and gas | 0.28 | -78 |
| Proxama | Technology | 0.04 | -76.9 |
| Blur Group | Support services | 3.13 | -70.2 |
| Nature Group | Cleantech | 2.88 | -65.2 |
| Grahene NanoChem | Technology | 2.25 | -54.2 |

## AIM - 1 YEAR INDEX CHANGE

**Source:** London Stock Exchange




**Data: Hubinvest** Please note - All share prices are the closing prices on the 30th June 2017, and we cannot accept responsibility for their accuracy.

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Northland has a strong track record in advising and raising funds for growth companies. We always aim to provide innovative ideas and solutions that will enable our clients to fulfil their long-term growth ambitions in a wide range of sectors, including healthcare, TMT, consumer, resources and support services.

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We host a regular Nomad Forum which has been established to provide nomads with the opportunity to discuss AIM regulatory issues on a Chatham House basis, and to provide briefings on key legal developments. Submissions are often subsequently made to AIM Regulation as a result of discussions held.

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