Avenir REGISTRARS
Equity listings | Bond issuance | Register keeping | Receiving Agent duties

AUGUST 2024

THE ONLINE MONTHLY FOR THE ALTERNATIVE INVESTMENT MARKET

AIM JOURNAL

AIM rebounds after election

AIM rebounded in July following the General Election. The FTSE AIM All Share index was 2.85% higher over the month, which was much better than the FTSE 100 index improvement of 1.13%. However, the AIM index is still lower than prior to the announcement of the General Election.

The FTSE AIM UK 50 index and the FTSE AIM 100 index are both more than 3% ahead over the past month, showing that the larger companies on AIM are pushing the performance of the market.

AIM is still underperforming over a 12-month period. It is also underperforming in the period since the market low in the middle of March 2020. That was despite early outperformance in 2020 and into 2021. AIM is more than 30% higher, but the FTSE 100 percentage increase is double that.

The number of companies on AIM continues to decline due to takeovers of attractive and profitable companies and the difficulty of smaller companies to raise cash and warrant the expense of a quotation. The fact that there are still bidders out there shows that there is value on AIM. The problem is that those bidders will be the ones benefiting more from that value than the existing shareholders if the companies are taken off the market.

Surgical Innovations stake buy

Fully listed investment company Thalassa Holdings has taken a 9.94% stake in AIM-quoted Surgical Innovations and that helped the share price recover to 0.75p, which values the surgical instruments manufacturer at £7m. That is still not far off the all-time low that was reached recently. Liontrust Asset Management has sold its 8.3% stake.

Surgical Innovations develops products used in minimally invasive surgery. It reported record revenues of £12m, up from £11.3m, in 2023, but it still made a loss. A restructuring was undertaken during the year and manufacturing efficiency is improving. A reduced loss is forecast for this year. There is demand for the company's surgical instruments, but it needs to show that it can generate profits. It is unclear whether Thalassa can help with this.

Earlier this year, Thalassa chairman Duncan Soukup made initial restitution payments to Thalassa due to a loss on an investment in Tappit Technologies and he will pay up to £1.5m more. This means that Thalassa has cash to invest. Thalassa had a book value of 116p/share at the end of 2023. This compares with a share price of 26.5p. Thalassa was quoted on AIM until February 2019 when it moved to a standard listing.

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TEN YEARS OF
innovation

Trinity recommends higher bid

Trinidad-based oil and gas producer Trinity Exploration and Production is recommending a cash bid from Trinidad incorporated Lease Operators and withdrawn the recommendation of the Touchstone Exploration offer of 1.5 shares for each Trinity share. The bid is 68.05p/share and values Trinity at £26.4m. The share price has not been as high as that since the beginning of November. It was around triple the bid price in 2021.

This compares with the original value of the Touchstone Exploration bid of 61.9p/share. That was based on a Touchstone Exploration share price of 41.25p, but it has fallen to 33.5p, so the value is currently 50.25p/share.

Trinity is expected to generate revenues of $70.7m and a pre-tax profit of $9.8m in 2024. In the first quarter of 2024 production was 2,669m barrels of oil per day, which was slightly lower than the previous quarter. Full year guidance is 2,600-2,700 barrels of oil per day.

Lease Operators is part of the Well Services group of companies, whose founder Charles Anthony Brash Jr was an early director of Trinity. Well Services started undertaking workovers on oil wells in 1967 and subsequently started offering offshore operations. Lease Operators was formed in 1988 to become an oil producer from existing oil wells. In June 2024, it produced 2,152 barrels of oil per day.

The enlarged group will have access to offshore drilling rigs and vessels to help with the planned drilling programme. There will also be economies of scale to reduce the cost of production. The takeover will require approval from the Trinidad and Tobago government.

Eroxon launch

Healthcare company Haleon has announced that it will launch the erectile dysfunction topical gel treatment Eroxon in the US before the end of 2024. This was developed by Futura Medical and should trigger a US launch milestone. There has already been an upfront payment of $4m. Specific royalty levels have not been announced. Haleon has a broad experience of launching over the counter brands in the US. The US is the largest erectile dysfunction market in the world, and it is a bigger potential market than all the other sales regions combined. So far, Eroxon has been launched in Belgium and the UK with more countries to follow. Trinity Delta has assumed a valuation of 123p/share for Futura Medical.

Tax changes hamper North Sea oil investment

Changes to the UK oil and gas tax regime will provide uncertainty for the sector at least until the Budget on 30 October. This is likely to delay some North Sea projects and their final investment decisions.

Some of the changes have been announced. The Energy Profits Levy will be raised from 35% to 38% from November, which will make the total UK tax rate 78%. The current 29% capital allowance uplift will be removed. The new regime will last until March 2030. This is not a surprise.

However, the government has said it "will also reduce the extent to which capital allowance claims (including first year allowances) can be taken into account in calculating levy profits". That was not expected. There will be a consultation with the oil and gas industry concerning this proposal. This could have a highly negative effect on capital investment in the North Sea.

AIM companies Serica Energy and Jersey Oil and Gas are involved in the Buchan development in the North Sea. Jersey Oil and Gas retains a 20% interest and has a full carry on capital spending on the project up until first oil. However, the final investment decision, which had already been delayed until 2025, could be hampered by the tax changes.

Broker Zeus says that the new tax regime does complicate matters, but it should be clarified before the end of the year so that a final investment decision can still be made next year. The level of capital allowances and the ability to use profits elsewhere in the North Sea to offset against the tax charge will be an important factor in the decision.

Auctus Advisers believes that there is a possibility that the Buchan project will not go ahead. Even if it does not go ahead, the estimated worst case scenario valuation for Serica Energy is 190p/share.

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Public offer platforms consultation

A consultation paper called 'Consultation on the new public offer platform regime' has been published by the Financial Conduct Authority (FCA) and this would allow more than £5m to be raised via public offers outside of public markets. This comes out of the new regulated activity created by the Public Offers and Admissions to Trading Regulations 2024. The plan is to finalise rules by the first half of 2025.

Currently, up to €8m can be raised without a prospectus, which is based on the old EU rules. The focus of the changes is that there will be suitable regulation of offerings by companies not on the public market. A new regulated electronic system called a public offer platform (POP), will have to be used for raising more than £5m.

The consultation is about the rules required for a POP and the firms that run them. Information and due diligence, plus disclosures to investors need to be finalised. Investors will remain responsible for their investment decisions, but POP operators will be responsible for deciding whether an offer is appropriate. The costs should be proportionate.

Advisers, companies and investors have until 18 October to provide comments on the consultation paper. This can be done via email at cp24-13@fca.org.uk.

■ Broker and acquisitions adviser **Cavendish Financial** had a stronger second half, which was the first period as a merged business after the combination of finnCap and Cenkos. The figures for the year to March 2024 include Cenkos from 7 September 2024. Consolidated revenues were 46% higher at £48m. The operating loss was flat at £1.7m. The dividend was cut from 1.15p/share to 0.25p/share. Cash was £20.7m at the end of March 2024. Cavendish Financial is expected to return to profit this year. Following the results, non-executive director Mark Astaire bought 85,000 shares at 12.8p each.

■ Broker and investment manager **Oberon Investments Group** increased revenues by 50% to £7.58m in the year to March 2024. There was still a loss of £2.88m, even after the £318,000 gain on a stake disposal. Additional hires mean that overheads were much higher. NAV was £23.9m. Corporate finance income was slightly lower with the main growth coming from investment management. There has been a strong first quarter and like-for-like growth should be more than 30% this year.

■ **VSA Capital** reported a slump in full year revenues from £4.36m to £1.89m and there was a loss of £2.4m. That included a £1.67m loss on investments due to the reversal of a transaction with Silverwood Brands. There was net cash of £12,000 at the end of March 2024.

■ Panmure Liberum completed its merger and Zeus Capital completed the acquisition of WH Ireland Capital Markets. This led to their clients updating the names of their nominated advisers and brokers. Two companies did change advisers after the merger of Panmure Gordon and Liberum. CT Automotive moved from Liberum to Singer and Allergy Therapeutics switched from Panmure Gordon to Cavendish.

ADVISER CHANGES - JULY 2024

COMPANY	NEW BROKER	OLD BROKER	NEW NOMAD	OLD NOMAD	DATE
CT Automotive	Singer	Liberum	Singer	Liberum	7/1/2024
Hargreaves Services	Cavendish / Singer	Singer	Singer	Singer	7/3/2024
Nostra Terra Oil and Gas	SP Angel	Novum	Beaumont Cornish	Beaumont Cornish	7/17/2024
Allergy Therapeutics	Cavendish	Panmure Gordon	Cavendish	Panmure Gordon	7/22/2024
Greencoat Renewables	Barclays / Davy / RBC Capital Markets	Davy / RBC Capital Markets	Davy	Davy	7/22/2024
Angus Energy	SP Angel	SP Angel	SP Angel	Beaumont Cornish	7/23/2024
Devolver Digital	Panmure Liberum / Zeus	Zeus	Zeus	Zeus	7/23/2024
Echo Energy	Peterhouse / Zeus	Zeus	Zeus	Zeus	7/31/2024

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putting clients first

Kinovo puts DCB overhang behind it and focuses on compliance and renewables

Property services *www.kinovoplc.com*

Property services provider **Kinovo** has finally sorted out its legacy problems following the disposal of the DCB business, where the buyer went bust. The guarantees concerning completion of projects given by Kinovo have cost it £12.9m. The last of the nine projects is coming to an end.

Most of the cash has already been paid and the final amount of £2.2m will be paid over 18 months. Cash generation will more than cover that and improve the net cash figure to £1m by the end of March 2025. There could be some cash recoverable to reduce the overall cost.

In the year to March 2024, revenues improved from £62.7m to £64.1m even though management chose not to renew a private sector renewables contract worth £3.6m/year. Free cash flow was £7.2m and the DCB outflow was £7.4m.

The DCB problem is over

Three-fifths of revenues are non-discretionary and regulatory driven. Kinovo is involved in compliance and required electrical and mechanical services for local authorities and social housing operators. There are contracts worth £162.6m over the next three years. A new office has opened in East Anglia. The new UK government is planning to increase spending on renewables and energy efficiency and Kinovo is in a good position to take advantage.

KINOVO (KINO)			68.5p
12 MONTH CHANGE %	+55.7	MARKET CAP £M	43.2

Pre-tax profit is forecast to improve from £6.1m to £6.6m this year. Contracted revenues are already £69m out of forecast revenues of £71m. The shares are trading on less than nine times prospective earnings.

Considering the strong order book that already covers most of this year's forecast revenues and a chunk of next year's that is an attractive valuation. Management can focus on the future without worrying about the past and the cash balance should increase significantly once the additional costs are paid.

Ilika progresses towards commercialisation of Stereax

Battery technology *www.ilika.com*

Battery technology developer **Ilika** is making progress with its manufacturing partner Cirtec for the commercialisation of the medical technology-focused miniature battery Stereax, but significant revenues are still a little way away. The larger Goliath battery cells, which have achieved equivalence with lithium-ion batteries, are being tested by potential automotive customers. There could be licensing opportunities from next year.

In the year to April 2024, revenues jumped from £702,000 to £2.09m due to higher grant income. There was cash of £4.15m utilised by operations, plus £1.66m of capital investment. This was partly offset by interest received and tax credits. Net cash was £11.9m at the end of April 2024.

ILIKA (IKA)			27p
12 MONTH CHANGE %	-40.7	MARKET CAP £M	45.2

Revenues will continue to be dominated by grant income relating to Goliath batteries and are expected to be £1.5m in 2024-25. Since the year end, £2.3m has been raised at 28p/share and net cash should be more than £7m by next April after taking a loss and capital investment into account. There should still be cash left at the end of April 2026 based on revenues of £5m as Stereax sales start to build up.

Panmure Liberum estimates that Stereax could generate revenues of £80m by 2039-40. It is best to assume that forecasts could be too optimistic, but even so there is enough cash to see the company through to more significant sales levels as long as any delays are not substantial. There is underlying demand for the Stereax battery and Ilika and Cirtec need to show that they can satisfy this and generate cash. Goliath has longer-term potential.

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Cambridge Nutritional Sciences concentrates on its core food allergy testing operations

Medical diagnostics *www.cnsplc.com*

Cambridge Nutritional Sciences, formerly Omega Diagnostics, has disposed of its loss-making activities and is making strides in improving manufacturing efficiency. That is starting to show though in the results. This is an international business, although management would like to have more exposure to North America.

The remaining operations are diagnostic tests for food sensitivity and other personalised health requirements. Brands include FoodPrint, which is a blood test, and Food Detective, a rapid test. FoodPrint results can be accessed via the company's app MyHealthTracker. There is also a UK laboratory offering food sensitivity testing.

Gross margins recovered

In the year to March 2024, continuing operations generated revenues of £9.8m, up from £7.5m. However, this was affected by the timing of orders and this year's revenues could be lower. The loss was slashed from £2.5m to £400,000. Manufacturing improvements helped gross margins to bounce back from 47% to 61.9%, which should be sustainable.

The dispute with the Department of Health and Social Care regarding a Covid contract is ongoing. Repayment is being sought of a pre-production payment of £2.5m for Covid test manufacturing. Management does not believe that this will be required to be repaid and Cambridge Nutritional Sciences is considering claims against the government for losses suffered.

CAMBRIDGE NUTRITIONAL SCIENCES (CNSL)			3.75p
12 MONTH CHANGE %	+44.2	MARKET CAP £M	8.9

Even though revenues are expected to decline the loss should halve to £200,000 this year. There could be potential to reduce administrative costs over the medium-term. The cash position remains strong and net cash should remain above £5m at the end of March 2025, even though there is going to be investment in factory equipment. Investment in marketing should enable revenues to grow over the long-term and move the company into profit.

SDI refocuses on growth markets

Scientific instruments *www.sdigroup.com*

New management has refreshed the focus of scientific instruments manufacturer **SDI Group**. The core strategy remains buy and build, but acquisitions are likely to be larger than previously and targeted on growth markets.

Three new divisions have been created. Laboratory equipment is the largest in terms of revenues, but not in terms of profit contribution. The largest profit contributor is industrial and scientific sensors. Industrial and scientific products made most of the profit in 2022-23 before the loss of Covid business.

In the year to April 2024, revenues dipped from £67.6m to £65.8m, but there was underlying growth if the previous year's Covid-related revenues are excluded. Operating margins are just above 14%. Pre-tax profit dipped from £11.8m to £8m because of the higher margin business in the previous year.

SDI GROUP (SDI)			64p
12 MONTH CHANGE %	-52.6	MARKET CAP £M	66.9

Management says there are potential acquisitions in progress, but the timing is always difficult to predict. Net debt was £13.2m at the end of April 2024 and that could halve in a year's time without any acquisitions.

Cavendish trimmed its expectations for this year, but that reflects a more conservative approach to contracts that are expected but have not been signed. That means that the 2024-25 revenues forecast of £69m could have some upside. Pre-tax profit of £8.4m and earnings of 6p/share are forecast.

The prospective multiple is less than eleven. That reflects the disappointments over the past couple of years. There is a target for organic growth of 5%-8% each year. Earnings enhancing acquisitions would supplement that growth. The share price should rebound over the medium-term as investors regain confidence in SDI.

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innovative technology

Food distribution grows at NWF as fuels contribution falls back to sustainable levels

Food and fuel distribution *www.nwf.co.uk*

NWF (NWF)			172.5p
12 MONTH CHANGE %	-34.9	MARKET CAP £M	85.3

NWF was never going to repeat the bumper profits generated from fuels in 2021-22 and 2022-23 when oil prices were volatile, but it is gaining market share with commercial clients. Food distribution and animal feeds also made lower profit contributions, although for the former it was due to start-up costs for its new warehouse.

In the year to May 2024, revenues were 10% lower at £950.6m, while underlying pre-tax profit declined 36% to £12.5m. The dividend was raised for the 13th year in a row to 8.1p/share. The dividend has been maintained or raised every year since 1996.

13th annual dividend rise

The relatively warm winter led to lower heating oil demand only partly offset by commercial sales. The operating profit contribution fell from £12.9m to £7.9m, which is a realistic ongoing level. Vendors were not keen to sell their businesses last year, but there are more acquisition opportunities becoming available.

The food distribution business remains the strong performer in the group. Although the reported operating contribution was 12% lower at £3.7m, that is after £1.7m of initial costs for the new warehouse at Lymedale. Business is building up and it has reached 70% capacity but will not reach critical mass of around 92% utilisation until the end of the first half of this year. This means the full benefit of the investment will not show through until next year.

Feed volumes fell at a faster rate than the market because management did not chase low margin business. The lower milk price hit demand and the operating profit was on-third lower at £2.6m. The milk price has recovered, and the outlook has improved.

Net cash is £10m. A further decline in pre-tax profit to £11.6m is forecast for this year, but the dividend should still be raised to 8.4p/share.

FRP Advisory benefits from increasing administrations

Professional services *www.frpadvisory.com*

FRP ADVISORY (FRP)			130p
12 MONTH CHANGE %	+11.1	MARKET CAP £M	318.2

Restructuring and corporate finance services provider **FRP Advisory** is benefiting from strong restructuring services demand and trading at its corporate finance operation is better than many of its peers. The outcome for last year was even better than previously upgraded forecasts.

There was growth in all parts of the business. In the year to April 2024, revenues were 23% higher at £128.2m, while pre-tax profit improved from £24.1m to £33.7m. The dividend was raised to 5p/share. Net cash is £29.7m.

There were two acquisitions last year. Since the year end, two further acquisitions have been made: Southampton-based finance provider Hilton-Baird and Cardiff-based Lexington Corporate Finance. Even so, net cash could improve to £32m by April 2025.

FRP Advisory is the largest administrator in the UK based on number of appointments and has increased its market share from 14% to 16%. Administrations handled include Prezzo, WiggleCRC and Body Shop. The number of administrations has risen by 22% over the past year and there are plenty of businesses finding the current economic conditions tough. These can also provide business for parts of FRP Advisory, while some companies are seeking to offload the burden of their pension schemes.

There has been a strong start to the new year and there is potential for improving conditions in the M&A market. Cavendish forecasts a pre-tax profit of £34.7m this year, rising to £36.5m next year. The shares are trading on 13 times prospective earnings, while the forecast yield is 4%.

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Celebrating TEN YEARS

Renold returns to dividend payments after two decades

Chain manufacturer *https://Investors.renold.com*

RENOLD (RNO)	
Price (p)	60.8
Market cap £m	127.2
Historical yield	0.8%
Prospective yield	0.8%

Dividend

Chain and transmission equipment manufacturer Renold announced its first dividend since 2005. Renold had been a regular dividend payer for more than one decade before that. Sharepad has a final dividend of 1p/share for the year to March 1993. The figures do not go back any further, but it is likely that dividends had been paid for years prior to that. In 2003-04, the total dividend was 4.5p/share and there was an unchanged interim of 1.5p/share the following year.

High debt levels and a significant pension deficit were major factors in the ending of divided payments. Profitability was also variable with a loss in some years. Nearly two decades later, Renold declared a dividend of 0.5p/share, which is covered nearly 14 times by earnings.

Cavendish forecasts an unchanged dividend with a slightly higher level of cover for this year, but there is potential for improvement.

Business

Renold is an international business with two divisions and industrial chain manufacturing is the largest and the focus of growth, which is targeted to be ahead of GDP growth. The chain goes into conveyors, transmissions and other types of mechanical equipment. Three-quarters of the market is replacement.

The torque transmission division has been lower margin, but the gap has become much narrower thanks to investment in automation.

In the year to March 2024, revenues dipped 2% to £241.4m, while pre-tax profit improved from £18.6m to £22.1m. Cash flow from operating activities was £36m, enabling significant capital investment in the business. The figure was flattered by working capital movements in the past two years, but annual cash generation should be more than £30m.

Net debt was £24.9m at the end of March 2024. The pension deficit fell 8% to £57.1m. The cash costs of the pension were £6m last year. The pension deficit should steadily decline over the rest of this decade.

Strong cash flow has enabled debt to be reduced at the same time as making add-on acquisitions that have helped to broaden the geographic coverage and product range of the group. The most recent is Davidson Chain, which provides access to markets in Australia. This was the third acquisition in three years with more potential targets in the pipeline.

There is a good record of earnings enhancing acquisitions. The medium-term revenues target of £350m assumes one acquisition per year adding £15m-£25m in revenues. Operating margins should also improve, while interest charges may reduce.

The order book of £83.6m is lower than one year before with supply chains getting back to normal. Cavendish upgraded its 2024-25 pre-tax profit forecast to Renold has a record of forecast upgrades in recent years. The share price has started to reflect the improving performance, but the prospective multiple remains below nine.

Dividend news

Soft drinks maker **Nichols** is paying a special dividend following a set of interim results that led to upgrades. The special dividend is 54.8p/share, which will cost £20m, and the interim is 14.9p/share. The total dividend for the year is expected to be 85.6p/share, before falling back to 32.4p/share in 2025. Interim pre-tax profit was 18% higher at £14.5m. UK revenues grew 5% enabling market share gains, but African revenues fell by 10%. The timing of Ramadan hit Middle East revenues. Singer upgraded its full year pre-tax profit forecast by 4% to £29.9m. There should still be net cash of £52.7m at the end of 2024.

Legal services provider **Knights Group Holdings** improved underlying pre-tax profit from £17.1m to £21m in the year to April 2024. The total dividend was raised from 4.03p/share to 4.4p/share. This year has started well with residential property business recovering. Subsequent acquisition, Thursfields Legal, is based in the Midlands and adds 101 fee earners. The total payment is £12.5m with £5m of this deferred. Revenues were £11.2m last year. Knights believes Thursfield can achieve a pre-tax profit margin of 30%. A 2024-25 group pre-tax profit of £28.8m is forecast with a total dividend of 4.8p/share covered nearly five times by earnings.

Paper and advanced materials manufacturer **James Cropper** halved its dividend to 3p/share in the year to March 2024. That followed a decline of three-quarters in pre-tax profit to £800,0000 as revenues fell from £129.7m to £103m. There was a reduction in demand for the paper business in the fourth quarter and fuel cell materials demand has also declined. Next year, there should be a partial recovery in revenues and pre-tax profit could bounce back to £3.3m. That can be achieved with a modest profit contribution from paper and packaging. The dividend should return to 6p/share.

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Expert view: Registrars

Avenir Registrars – a look into the future…

By Hardeep Tamana

Last month we looked at the journey so far for Avenir as we approach our 10th anniversary this Autumn. But as interesting as a retrospective is, we're even more excited to share some thoughts as to where the company is looking to evolve and innovate in the future. Obviously, there's myriad regulatory factors and potential changes to legislation that could come into play here, but for now our own agenda is dominated by a few key points.

Building bridges

Core to this is the idea of closing the gap between issuers and investors. The arcane methods of communicating that still exist between these two bodies arguably defy belief at times.

Here we have two groups who ought to be in lockstep if shareholder rights are to be fully exercised, yet far too many communications and key aspects of ownership such as shareholder certificates and the registers themselves remain in a 19th century paper-based realm.

We've already made some progress here with one of our clients becoming the first in the UK to operate a fully digital share register, thanks to some straightforward amendments to the articles of incorporation. They save significant amounts of money from the fact that there's no longer an obligation to physically print then mail out documents, whilst corporate actions can be exercised electronically too, allowing for an unprecedented level of shareholder engagement.

With fall-back paper-based solutions still available for the small minority who will not or cannot change, and when an estimated two tonnes of paper is sent every day from UK issuers to custodian banks, what's not to like? As we chase net zero targets, further evolution here is ripe for the taking.

Maintaining investor choice

This feeds into a broader narrative about ensuring that any change doesn't come at the price of investor choice. A change of administration in Westminster appears to have done little to disrupt attempts to implement digitisation reform, but is this on course to be delivered at a price that would see securities holders' rights eroded?

The current direction of travel suggests that all individual shareholders may be obliged to manage equity holdings via nominees, so losing the right to have their own name on the share register. But that doesn't need to be the case as hybrid solutions we have already developed using our existing technology allow a flexible approach to be taken when digitising registers but allowing individual investors to remain named.

> One of our clients became the first in the UK to operate a fully digital share register

We expect other registrars to overhaul their infrastructures in the medium term – evolution can be delivered here without securities holders paying a literal price.

Adapting to a changing world

Securities registry requirements are also changing. Companies are remaining private for longer, increasing the demand for easy solutions to facilitate the management of ever-more complex shareholder registers. These also need to offer a seamless route into public markets should that be the agreed direction of travel.

Our challenger status as a next-generation registrar means that our applications can be just as useful for privately held companies as they are for those in public markets. We're truly agnostic here and open to all – something our price point underlines.

A continuous quest for value

And we also acknowledge a need for all professional service providers to work collaboratively to bring down the cost of coming to market and then maintaining a listing. At Avenir we're already doing our bit with transparent pricing structures which are fixed at every opportunity, and we want to advocate the work of others who share this ethos.

With a growing number of companies delisting, stating that public markets no longer provide value for money and instead finding a home in the fast-growing private venue sphere, for London to maintain its title as a capital market hub, we need to see an end to this exodus.

The last decade has been a true journey in growing a business suited for the 21st Century in a sector that has at times been slow to evolve. We look forward to leading that charge further in the next decade - and beyond.

HARDEEP TAMANA, Managing Director, Avenir Registrars (www.avenir-registrars.co.uk).

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transparent pricing

Listing regulation changes, smaller company confidence and AIM

There are major changes going on for listing rules. The focus is the Main Market, but there could be knock-on effects for AIM. Meanwhile, the confidence of smaller quoted companies is low.

Changes to listing rules by the Financial Conduct Authority (FCA) are designed to make the Main Market more attractive to companies via a simplified and more efficient regulatory regime. The regulator wants investors to be able to obtain timely information and have confidence in their investing choices, as well as attracting more companies to seek a listing. It involves having a single market for commercial companies rather than primary and standard listings.

The big problem is the quality of the companies that are leaving AIM

AIM does not directly come into this thinking, but it could be affected by the changes. This comes at a time when there is a lack of new companies coming to AIM and continuing concerns about potential inheritance tax relief changes.

As ever, there is a focus on the number of companies on AIM falling. While the number may be well down it is still a reasonable number for a junior market. Too many companies and it can be difficult for individual companies to be visible to investors, The bigger problem, though, is the quality of the companies that are leaving AIM.

Video games services provider Keywords Studios and Alpha Financial Markets Consulting are the latest large AIM companies subject to bids. Thise two companies make up more than 3% of the current market capitalisation of AIM. Many others, such as Smart Metering Systems, have already been acquired this year.

These are profitable and dividend paying companies. There is a danger that the relatively low valuations of this type of company on AIM will lead to more being snapped up by private equity buyers.

Listing rules

The new listing rules came into force on 29 July. Those standard list companies that do not meet the new listing requirements for the new Equity Shares (commercial company) (ESCC) category will be moved to a transition category with the same rules as the standard list.

One-third of smaller companies are considering raising cash, which is the lowest figure since 2017

That is unless they are a cash shell, when they will be put into a separate category. Any company that was in the process of floating on the standard list will have to complete the flotation within 12 months to join the transition category.

Commercial law firm Hill Dickinson has produced a table (05771-160724-listing-comparisons---escc-v-aim-v-aquis-table-graphic-v3.pdf (vuturevx.com)) that sets out the comparative regulations for the Main Market, AIM and Aquis.

These new listing rules may provide some opportunities for AIM to gain additional companies. Previous standard list shells, such as Electric Guitar, have moved from the Main Market because their acquisitions have not been large enough to comply with previously upgraded rules for the standard list.

If a company in the transition category makes a reverse takeover it cannot be readmitted to the transition category. So, if it cannot go to the ESCC category, AIM could be a new home.

The FCA has also hinted that if the number of companies in the transition category dwindles then it may it close it down requiring those remaining to find a new home.

When it comes to the shell companies, they will have three years to complete a transaction. They have to have a shareholder vote on continuation after 24 months and this can be extended by 12 months up to three times. They will only require a sponsor on admission and

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when there is a transaction.

The minimum market capitalisation for joining the Main Market is £30m. While there is no minimum for AIM, it is not generally worth a company joining with a market value significantly lower than that unless they have plans to grow rapidly.

Research

MIFID II required separate charges for research and share dealing so that conflicts of interest can be reduced. This has hampered the research market.

Some changes to those MIFID II rules are being made by the FCA, which will in certain cases enable joint payments for third-party research and dealing services. There need to be arrangements in place to identify how the payments are split between the different areas. There appears to be additional bureaucracy related to the proposals.

It is unclear how much this will help smaller and medium-sized companies. If investors gain more information and data about these companies, then it will be a positive.

QCA survey

The latest QCA survey shows how negative smaller companies are about raising cash on public markets. There were 67 companies surveyed in the Quoted Companies Alliance Small & Mid-cap Sentiment Index with market capitalisations of between £1m and more than £1bn.

Admittedly, the survey was undertaken in April prior to the General Election, but it shows relative optimism about the economy and pessimism concerning the raising of funds.

The view of the companies concerning the UK economy over the next 12 months has improved from the previous figure of 37.4 to 47.8. That is still pessimistic, because the neutral level is 50, but it is a strong improvement.

The companies' expectations for their mean expected turnover growth have declined from 12.5% to 9.7%. Other than April 2020, this is the lowest figure since 2012. It is still a reasonable growth expectation, though.

Things change when it comes to raising money, where the companies surveyed are normally keen to raise cash to finance growth. One-third of companies are considering raising cash. That is the lowest figure since 2017 and the second lowest ever.

When it comes to how any cash will be raised, public equity is down to 27% from 41%. The figure has never been below 39% before. Bank finance has moved up from 45% to 50%, while listed debt has risen from 3% to 8%

The FCA hints that if the number of companies in the transition category dwindles then it may it close it down

These are figures which are based on the companies' assessment of how it difficult it is to issue shares to raise cash. The ease of raising cash is thought to be 3.7 on a scale of one to ten. In the previous survey, the figure was 4.3, which was the first time the figure had ever fallen below 5, which is effectively the neutral point.

In contrast the ease of raising private equity has risen from 3.7 to 4.6, which is the highest it has been since 2017. Bank finance is measured at 6.1, which is an improvement over six months before.

Pessimism

Some of this pessimism relates to the point in the stockmarket cycle for smaller companies. However, raising capital is thought to be much harder than during Covid times, as well as other periods of stockmarket weakness in the past decade or so.

The large discounts some AIM companies have to endure when they are raising money reflects how difficult it can be to fund a business without huge dilution to existing shareholders. That is why some AIM companies are deciding to ditch their quotation on the market. If they had been more patient, they may have been able to take advantage of better conditions in the coming years. There are always cycles in the market.

While liquidity on AIM is much lower than back in 2021 when the average number of daily trades was more than 80,000. In the first half of 2024, the average number of trades each day is 37,870, which is slightly lower than for 2023.

Back in 2007, when the year ended with 1,694 companies on AIM, the average number of daily trades was 16,443. This shows that the number of companies is not necessarily a guide to the health of a market.

Of course, AIM shares were not allowed in Individual Savings Accounts in 2007 and that has provided a boost to trading numbers, particularly when it comes to smaller value trades. The average value of daily trades is much lower than in 2007, though.

AIM is going through a tough period, but there is still life in the market. A general improvement in investor sentiment towards smaller and medium sized companies is required. There are signs that this is happening.

The improvement in AIM performance four years ago came from more speculative technology investments, but when there is a recovery these technology companies will have a part to play although it is likely to be led by more solid, profitable companies. If they are still around.

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Market Performance, Indices and Statistics

AIM SECTOR INFORMATION

SECTOR NAME	% OF MARKET CAP	% OF COMPANIES
Consumer	25.5	16.4
Industrials	20.1	17.3
Technology	12.4	12.5
Health Care	10.8	10.4
Financials	10.4	10.6
Basic materials	9.1	15.9
Energy	5.9	10.7
Telecoms	2.3	1.8
Property	1.9	2.1
Utilities	1.6	0.7

FTSE INDICES

ONE-YEAR CHANGES

INDEX	PRICE	% CHANGE
FTSE AIM All-Share	787.02	+2.9
FTSE AIM 50	4310.37	+5.8
FTSE AIM 100	3796.91	+4.4
FTSE Fledgling	12138.34	+13.6
FTSE Small Cap	6989.67	+11.2
FTSE All-Share	4588.31	+9.3
FTSE 100	8367.98	+8.7

COMPANIES BY MARKET CAP

MARKET CAP	NO.
Under £5m	135
£5m-£10m	93
£10m-£25m	130
£25m-£50m	94
£50m-£100m	86
£100m-£250m	100
£250m+	80

KEY AIM STATISTICS

Total number of AIM	718
Number of nominated advisers	25
Number of market makers	20
Total market cap for all AIM	£76.5bn
Total of new money raised	£135bn
Total raised by new issues	£48.2bn
Total raised by secondary issues	£86.8bn
Share turnover value (Jun 2024)	£24.3bn
Number of bargains (Jun 2024)	4.7m
Shares traded (Jun 2024)	642.4bn
Transfers to the official list	204

TOP 5 RISERS OVER 30 DAYS

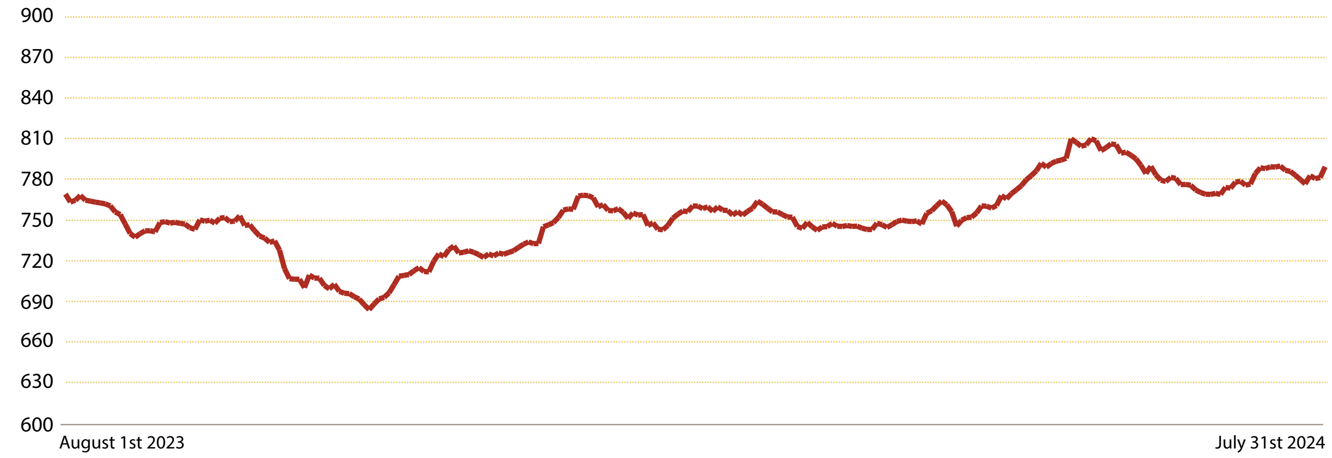
COMPANY NAME	SECTOR	PRICE (p)	CHANGE (%)
UK Oil and Gas	Oil and gas	0.059	+293
CRISM Therpeutics	Healthcare	17.5	+233
MindFlair	Financials	1.25	+163
Genedrive	Healthcare	4.125	+150
Sancus Lending	Financials	0.55	+144

TOP 5 FALLERS OVER 30 DAYS

COMPANY NAME	SECTOR	PRICE (p)	CHANGE (%)
Chaarat Gold Holdings	Mining	0.23	-91.8
Pipehawk	Industrial	1.3	-84.7
Destiny Pharma	Healthcare	2.525	-71.1
Nostra Terra Oil and Gas	Oil and gas	0.0325	-69
Biome Technologies	Industrial	25	-64.3

AIM - 1 YEAR INDEX CHANGE

Source: London Stock Exchange



Data: Hubinvest Please note - All share prices are the closing prices on the 31st July 2024, and we cannot accept responsibility for their accuracy.

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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 downloaded from the website www.AimJournal.info/archive.

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 £134bn 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 in the FTSE 100 that started on AIM include online gaming operator GVC, engineer Melrose Industries and student accommodation developer Unite Group. Healthcare properties investor Primary Health Properties, self-storage firm Big Yellow, animal genetics provider Genus, and online gaming technology developer Playtech are FTSE 250 index constituents.

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