

**SEPTEMBER 2018** 

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### Social media pitfalls

The dangers of social media for quoted companies have been highlighted by the London Stock Exchange's private censure and fine for an unnamed AIM company. An update of the progress of the business was released via social media and then the company subsequently released the information via a regulatory information service. The London Stock Exchange wants to ensure that everybody has an equal chance of accessing regulatory information.

The company breached AIM rules 10 and 31, because it did not release relevant information via a regulatory information service before it was announced anywhere else and did not have sufficient procedures in place to prevent this happening. The fine was £75,000, but that was reduced to

£50,000 for early settlement.

Another AIM company was privately censured and fined the same amount, but in this case the problem was that its relationship with the nominated adviser had broken down and it did not keep the firm up to date.

MBL Group has been publicly censured and fined £125,000 (discounted to £75,000 for early settlement) for a failure to provide timely, price-sensitive information about the deterioration of trading and then not providing the full information in the initial announcement. MBL shareholders rejected the general meeting proposal to cancel the AIM quotation. MBL is effectively a shell and trading in the shares will be suspended on 17 December if a reverse takeover is not secured before then.

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#### AIM tax-break threat

The Scottish National Party is lobbying for the devolution of inheritance tax policy to Scotland. If that happened, it could have a significant effect on AIM companies.

The SNP argues that transferring control of inheritance tax to the Scottish Parliament would enable a crackdown on the avoidance of payment by individuals through loopholes. Individuals avoid payment of inheritance tax through a variety of legal methods, one of which is via business property relief. That is the legislation that means an investment in eligible AIM-quoted companies, if the shareholding has been

owned for at least two years, is not subject to inheritance tax. The UK government does not have any intentions of changing this. Demand for the more stable, income generating companies on AIM has been boosted by this tax break.

In the 2016-17 tax year, the HMRC collected £5.1bn from inheritance tax receipts. That was a record. However, there was a £600m difference in the amount of tax expected and the amount received. There was £283m raised via inheritance tax in Scotland in the most recent tax year.





### >>> general news

## Shearwater cyber buy

Cyber security services provider Shearwater Group plans to significantly increase its product capabilities by acquiring fellow cyber security company Brookcourt for £30.3m in cash and shares. A placing will raise between £25m and £30m, while an open offer to existing shareholders could raise up to £1m. Shearwater is currently loss-making and the deal will make the enlarged group cash generative.

Brookcourt was formed in 2005 by the present management team, which is staying with Shearwater. The company has built up a customer base in a wide range of sectors, including financial services, media, retail, utilities, healthcare and logistics. Customers include large companies and this will provide cross-selling opportunities for Shearwater.

In the year to March 2017, Brookcourt reported revenues of £22.2m and EBITDA of £2.8m, although unaudited figures show revenues of £20.9m and EBITDA of £2m for the most recent financial year. Investment in the business led to contract wins after the year end

Shearwater has a buy and build strategy and its figures do not represent a full year of the acquisitions. In the year to March 2018, Shearwater lost £2.88m on revenues of £6.24m. Multi-Factor Authentication software developer SecurEnvoy was acquired in May 2017 and information and assurance services provider Newable Consulting in July 2017. Shearwater acquired software company GeoLang, which is yet to generate revenues, and Crystal IT Services after the year end.

## Bilby change

Bilby founder Phil Copolo and his son Leigh have left the board of the building and gas maintenance services provider and sold more than 31% of the company to institutions. Janet Copolo still owns 7.2% of Bilby and cannot sell the shares until 3 September 2019, according to an agreement with Stanford Capital Partners, which was sole book runner of the placing. Finance director David Ellingham is taking on the role of chief executive.

Demand for Bilby's services remains strong and the company is focusing on higher-margin business by ditching MoD contracts. Future revenue streams of £275m have been secured and there is a pipeline of contract bids. Acquisitions could provide further impetus for the business.

## Arria seeks New Zealand listing

Former AIM company Arria NLG is planning to obtain a New Zealand Stock Exchange listing before the end of 2018. The complex data analysis and artificial intelligence software developer left AIM at the beginning of 2017, having joined the junior market in December 2013, and initially indicated it would seek a New Zealand and ASX listing in March 2017.

A New Zealand-based holding company is being set up to acquire the UK company and there will be a one-for-one share swap. Shareholders will also receive one acquisition option, exercisable at NZ\$1 a share, for every ten UK company shares. The exercise price

is the same as the latest proposed subscription price.

Arria wants to raise \$16m prior to the New Zealand listing. It says that it has already invested \$70m in developing its software, but revenues have been hard to come by. According to the Companies House website, the Arria NLG plc accounts for the year to September 2017 have not been filed. Management says it intends to file them by the end of this September.

The 2015-16 accounts were authorised on 30 October 2017, and they show a decline in revenues from £1.48m to £806,000, with the majority coming from two customers, and there was a cash

outflow from operating activities of £4.1m plus a further £1.6m spent on capital investment, predominantly capitalised development costs. There was cash of £260,000 on the balance sheet, as well as £6.6m of convertible loan notes.

Arria has subsequently raised cash from share issues and loan facilities. In the general meeting document for the corporate restructuring management says Arria "has gained invaluable market intelligence and applied it to product development", but there is no indication of the level of revenues generated. Chief executive Sharon Daniels has an annual salary of £250,000.





#### >>> advisers

## Share takes on Beaufort clients

Share, which owns the online execution-only broker The Share Centre, has come to an agreement with the special administrator of the defunct broker Beaufort Securities to acquire around 15,000 of its customer accounts.

Beaufort collapsed in March and the clients have been in limbo since then. Once the accounts are transferred to The Share Centre there should be trading activity from them in the fourth quarter. Of course, it is difficult to assess how many of these accounts will continue to be active.

Share has taken on client accounts from other broking operations, such as Barclays and Henderson, and

they have boosted the business. Alongside the Beaufort agreement, there are deals to take on two other sets of clients from unnamed companies. In total, the three deals will add approximately 38,000 clients with £1.5bn of assets under administration.

Share had £5bn of assets under administration at the end of June 2018. In the six months to June 2018, revenues were 15% higher at £10.2m, but underlying pre-tax profit fell from £255,000 to £50,000 because of additional costs due to regulatory changes. The broker continues to invest in its digital platform. There was £9m in the bank at the end of the period.

In the past, Share generated a substantial income stream from interest on cash held in accounts, but low interest rates mean that this has been a much less significant source of revenues. However, as interest rates rise this income will boost profit. Share is forecast to breakeven this year and return to profit in 2019.

The Share Centre has improved its market share relative to a group of 15 other UK retail stockbrokers. The second-quarter share, excluding interest, was 3.88%, up from 3.54% in the first quarter of 2018, although these figures are both lower than in the same quarter in the previous year.

ADVISER CHANGES - AI	UGUST 2018				
COMPANY	NEW BROKER	OLD BROKER	NEW NOMAD	OLD NOMAD	DATE
Cradle Arc	SP Angel/Tamesis	Tamesis	Strand Hanson	Strand Hanson	01/08/18
Craneware	Investec/Peel Hunt	Peel Hunt	Peel Hunt	Peel Hunt	01/08/18
Crusader Resources	Novum/Hannam	Hannam	Smith & Williamson	Smith & Williamson	01/08/18
Mosman Oil and Gas	SVS/SP Angel	SP Angel	SP Angel	SP Angel	02/08/18
NetScientific	WH Ireland	Stifel Nicolaus	WH Ireland	Stifel Nicolaus	02/08/18
Everyman Media	Canaccord Genuity	Cenkos	Cannacord Genuity	Cenkos	06/08/18
Thor Mining	Northland/SI	SI	Grant Thornton	Grant Thornton	06/08/18
Inspirit Energy	SVS	SVS/Peterhouse	Beaumont Cornish	Beaumont Cornish	10/08/18
Pathfinder Minerals	Strand Hanson	WH Ireland	Strand Hanson	WH Ireland	10/08/18
Tern	Allenby/Whitman	WH Ireland/Whitman	Allenby	WH Ireland	13/08/18
	Howard	Howard			
<b>Verseon Corporation</b>	Arden/Cantor	Cenkos/Cantor	Arden	Cenkos	16/08/18
	Fitzgerald	Fitzgerald			
Wentworth Resources	Stifel Nicolaus/Peel	Stifel Nicolaus/Peel	Stifel Nicolaus	Stifel Nicolaus	20/08/18
Ltd	Hunt	Hunt/GMP First Energy			
<b>Asiamet Resources</b>	Berenberg/Liberum/	Liberum/Optiva	RFC Ambrian	RFC Ambrian	21/08/18
Ltd	Optiva				
Curtis Banks	N+1 Singer/Peel Hunt	Peel Hunt	Peel Hunt	Peel Hunt	22/08/18
Stride Gaming	Investec	Shore/Canaccord Genuity	Investec	Shore	24/08/18
Vertu Motors	Zeus	Canaccord Genuity/Zeus	Zeus	Canaccord Genuity	24/08/18
AdEPT Telecom	Cantor Fitzgerald	Northland	Cantor Fitzgerald	Northland	28/08/18
Abzena	N+1 Singer	Numis/N+1 Singer	N+1 Singer	Numis	30/08/18

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#### >>> company news

## Exports continue to feed growth in hospitality sales at Churchill China

Tableware manufacturer

www.churchill1795.com

Tableware manufacturer **Churchill China** continues to prosper from its focus on the hospitality sector and export markets. In the first half of 2018, European sales were 24% higher at £10.6m, with particularly strong growth in Germany and Spain on the back of better service than that of local rivals. Churchill's European market share is approximately 4%, so there is more to go for.

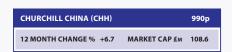
North American sales improved even though Churchill is going through the process of changing distribution arrangements. Business with international hotel chains is propelling business in the rest of the world.

In the UK, the main customer base

#### European sales were 24% higher

is pubs, so the problems of highstreet restaurant groups have not had much impact on business. Pubs are more conservative with their business plans than private equitybacked restaurant chains. Lower levels of new installations by pub groups did mean that UK sales did dip by 5% to £9.2m.

Group interim revenues were 6% ahead at £27.2m, even though retail sales fell by £500,000 to £2.4m. Export sales are 63% of total revenues, up 19% in the first half, and that is affecting the seasonality



of profit, although the second half contribution will still be larger. Interim pre-tax profit was 24% ahead at £3.3m. There is a rebalancing of the dividend, with an 18% increase in the interim to 8.7p a share. Churchill has nearly a decade of steady increases in dividend.

There is £13.7m in the bank. Firsthalf capital spending was low but there are plans to increase capacity and invest in automation over the next 18 months. This will enable the production of different shapes and more embossed tableware, which generates higher margins.

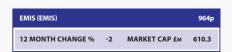
## Service improvements put EMIS on right track

Healthcare IT

www.emisgroupplc.com

Each division grew its revenues at **EMIS** in the first half of 2018, but not all of them improved its profit contribution. The Healthcare IT software and services provider had to invest in improving its service levels in the primary care division, which held back the profit of the division. EMIS plans to unveil a five-year strategy at the end of November.

In the six months to June 2018, revenues improved by 7% to £84.5m, while underlying pre-tax profit moved ahead from £17.3m to £17.8m. At the end of last year, there was an £11.2m provision for service



level reporting charges relating to NHS Digital and there was a £674,000 cash outflow in the first half of 2018 relating to that provision. The costs should be within the provision level.

EMIS deployed 93 additional staff and says that it has been meeting NHS Digital contract obligations since 1 July. Bidding will begin for the new IT Futures framework at the beginning of next year.

The share price has barely changed

over the 12-month period, but that masks a sharp improvement in the past seven months.

Edison forecasts an improvement in full-year profit from £35.2m to £36.9m. That puts the shares on 21 times prospective 2018. What should not be underestimated is the cashgenerating ability of the business. Net cash is expected to rise from £14m to £17.8m, even after paying £17.2m in dividends during the year. The interim dividend was increased by 10% to 14.2p a share and the full-year dividend should be at least 28.4p a share, providing a yield of





#### >>> company news

## Former AIM award winner Crawshaw continues to disappoint

Delicatessens www.crawshawbutchers.com

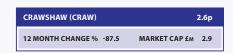
Meat and delicatessen products retailer Crawshaw Group is one of many examples of the poor performance of a company after it wins the AIM award for bestperforming share. Crawshaw was the 2014 winner and the share price was 50.5p at the end of July 2014, having risen by more than eleven times in the preceding 12 months. The share price did continue to rise after the award was won, but it has fallen below the level at the beginning of August 2013.

Last year's best-performing share winner, Nu Oil & Gas, is still trading at a similar share price, but the 2016 winner, Pantheon Resources, has fallen by more than 90% since the end of July 2016. Other past winners where share prices have subsequently fallen by more than

#### The cash outflow needs to be stemmed

90% include GCM Resources. Silence Therapeutics and MC Mining (previously Coal of Africa), while MotionPoster and Henderson Morley went bust. The two big postaward successes have been ASOS (2003) and Victoria (2015).

Crawshaw was profitable in 2014-15, but it has been lossmaking since then and it has proved difficult to turn the business around. Last year's three-year supply agreement with meat producer 2 Sisters Food was designed to help Crawshaw to be more competitive in price terms and broaden its range. At the time,



a 29.9% stake was acquired by former 2 Sisters boss Ranjit Boparan at 15.2p a share.

High rents and discount competition have continued to make trading difficult and former Asda fresh meat department boss Jim Viggars took over as chief executive in May. Like-for-like sales fell by 13.2% in the first half of this financial year. Overall sales, including new outlets, are forecast to be flat for the full year and the operating loss is expected to be 50% higher at £3m. The cash outflow needs to be stemmed or the £3.3m in the bank at the end of July 2018 will not last long.

## Positive earnings impact for IG Design

Gift wrap supplier

www.thedesigngroup.com

**IG Design** is increasing its exposure to North America through the £56.5m acquisition of Impact Innovations Inc. This will make the group the largest consumer gift packaging business in the world. The deal will be partly funded by a placing that will raise £50m at 510p a share. This deal will be earnings enhancing, with the potential for additional benefits from cost savings and cross-selling to major US

Impact supplies gift packaging and seasonal décor products and it has

IG DESIGN (IGR)			595p
12 MONTH CHANGE %	+55.1	MARKET CAP £M	380.1

manufacturing facilities in Tennessee and China. The company has good relationships with major US retailers, including Walmart (60% of Impact's sales) and Target. Impact generated 2017 revenues of \$156m and EBITDA of \$15m. Growth has been held back by having to replace a struggling customer with new business. IG Design has been reducing its reliance on Christmas in recent years, but this deal will partially reverse that progress because 61% of Impact's sales relate to Christmas.

Progressive Research has upgraded its 2018-19 earnings per share forecast by 7% to 25.9p, while a full contribution from Impact next year is expected to generate earnings of 31.5p. The dividend forecast has also been upgraded from 7.3p to 7.8p in 2018-19 and then from 8.5p to 10.3p the following year. The dividend would still be covered more than three times.

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#### >>> company news

## Sales and marketing expertise helps Byotrol make the most of its antimicrobial technology

Antimicrobial products www.byotrol.co.uk

Acquiring Medimark Scientific will provide **Byotrol** with the sales and marketing expertise to help it make the most of its antimicrobial technology. Byotrol has been working with Medimark, which is a growing and profitable business, for nearly one year.

Sevenoaks-based Medimark sells infection-control products in the human and animal health markets. The products include sporicidal, instrument, skin and high-level disinfectants. The animal health sector accounts for 64% of revenues, human health 23% and the rest comes from the laboratory, environmental and retail markets. The founder is retiring but the rest of the top management is staying.

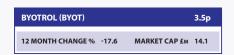
Medimark has a proven sales team

## Byotrol had net cash of £3.8m

with contacts that could help to sell Byotrol's own products and it also has procurement expertise.

Byotrol will pay up to £4.1m in cash and shares for Medimark, with an initial payment of £2.3m and the rest dependent on performance over the next two years. Byotrol will also take on £400,000 of debt. At the end of March 2018, Byotrol had net cash of £3.8m, thanks to the £4.6m net raised at 4p a share last year through a placing and open offer.

Last year, Byotrol reported flat revenues of £3.14m but the makeup of the revenues was different.



The latest figure includes part of the income from the deal with Solvay for the sale of Actizone surface cleaning patents and intellectual property, which included an upfront payment of £750,000. A further payment is due in this financial year plus future royalties. A £1m cash payment has been received from Solvay since March.

Byotrol remains loss-making, partly due to investment to ensure that all the products comply with the latest EU regulations, but house broker finnCap is currently expecting it to make a profit in 2019-20, which will include the first full-year contribution from Medimark.

## Gooch builds critical mass in life sciences

Photonics technology

Photonics components and equipment supplier Gooch & Housego has successfully grown its industrial and aerospace and defence divisions organically and through acquisitions. Management wants life sciences to be another significant division, but progress has been slow. The acquisition of Integrated Technologies should bulk up the division and double its revenues, from nearly £10m in the year to September 2017. Integrated Technologies made an underlying operating profit of £1.5m last year, so profit should more than double. The group is paying up to £22m,

GOOCH & HOUSEGO (GHH) 1600p

12 MONTH CHANGE % +17.2 MARKET CAP £M 397.4

with up to £8m dependent on performance over the next two years, for the manufacturer of medical and in vitro diagnostic devices. Integrated Technologies can develop and design products and then manufacture them and it has an international client base. There are manufacturing sites in Kent and China. Gooch's strategy is increasingly to sell equipment rather than individual components and all Integrated Technologies' sales are of system-based products.

www.goochandhousego.com

The group's existing life sciences business is focused on optical coherence tomography, laser surgery and microscopy. Gooch has been investing in developing new products, although they have yet to make a significant contribution. The enlarged division will still be the smallest profit contributor of the three main divisions. The deal should be earnings enhancing in the year to September 2019.

Gooch has also bought the trade of fibre optic technology supplier Gould Fiber Optics for an initial \$13m. This will increase the scope of the defence business.





#### >>> dividends

## Urban Exposure builds on experience

Residential development finance provider

www.urbanexposureplc.com

#### **Dividend**

Urban Exposure is effectively a new company even though an existing business was reversed into it at the time of flotation. That means that there is no track record of dividends, but when the company joined AIM in May there was a stated target of providing a yield of around 5%, based on the placing price of 100p, for the first full year as a quoted company.

The target dividend for 2018 is 2.5%. In the longer term, the plan is to pay up to 50% of profit in dividends.

#### **Business**

Urban Exposure started out as a housing developer 16 years ago and subsequently switched to originating and managing development finance loans to residential property developers. The focus is developments in major UK towns and cities. The management team has built up relationships with developers around the UK and they say that there have been no losses or arrears. That is an indication of managements' cautious approach to risk and sites have to have planning permission before a loan is considered.

Loan to value is capped at 75% and it averages 68%. There would have to be a fall in house prices of at least 30% before the capital loaned was in danger. The loans have gross returns of 12% to 14% and last an average of 2.5 years.

Urban Exposure's revenues come from interest and fees from lending the company's own cash and income from the asset management business. The company's direct lending generates origination, commitment, facility and security agency and exit fees. Syndicated and managed loans

URBAN EXPOSURE (UEX)	
Price (p)	113
Market cap £m	186.4
Historical yield	Nil
Prospective yield	2.5%

generate origination, management and performance fees from the partners, plus facility and security agency fees from the borrower. Once money is lent, the company monitors the progress of the development and attends construction meetings. The sales and marketing plans are required to be approved.

There is certainly demand for more housing to be built and some smaller housebuilders are finding it more difficult to access the finance they require from banks, which are put off by increasing regulatory requirements. The government target is 300,000 new homes each year, which is more than double current levels of construction. Urban Exchange calculates that to achieve the target over the next ten years a further £208bn of funding will be required, but there is already a shortage of available finance.

The AIM flotation raised £144m after expenses and a similar amount was raised in debt. So far, more than £100m of new loans have been made and a joint venture set up with KKR. There is a pipeline of loans with terms agreed but these are still subject to conditions and due diligence and there is no certainty that they will all go ahead. That due diligence is a significant upfront cost in terms of time and money, but it does ensure that risk is reduced.

#### Dividend news

Concrete levelling equipment supplier **Somero** is doubling its interim dividend to 5.5 cents a share, but this is partly a rebasing of the interim because the final has become such a high proportion of the total dividend. Even so, the full-year dividend is expected to increase from 15.5 cents a share to 24 cents a share. Somero can afford this because of its growing profit and cash generation and it already has \$20.7m in the bank. Cash will be higher at the year-end and there is scope for another special dividend in the next year or so.

Adverse currency movements masked the progress made in North America by fryer management and kitchen services provider Filta, but a contribution from last autumn's grease management acquisition helped revenues to grow 15% to £6.6m, while pre-tax profit was 13% ahead at £1m. The disposal of the refrigeration business contributed to improving margins. The interim dividend has been raised by 11% to 0.72p a share. Net cash is £2.4m, even after having to pay a large tax bill. The currency comparatives should be kinder in the second half and the performance of the grease management business is improving, with potential for earningsenhancing acquisitions.

New and used cars retailer Marshall Motor reported a small dip in continuing interim revenues at a time when the new car market is tough, exacerbated by declining diesel car sales. Underlying pre-tax profit edged up to £16.4m as used vehicle profit improved. The dividend is maintained at 2.15p a share. Trading will be even tougher in the second half, partly due to new testing regulations, and fullyear profit is expected to decline from £29.1m to £24.2m, although the total dividend could be raised to 6.75p a share. There is a strong balance sheet, with a NAV of £201m.

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## >>> expert views

#### Expert view: The broker

#### Evgen Pharma – Unlocking the therapeutic potential of sulforaphane

#### By Liam Gascoigne-Cohen

uoted on AIM in 2015, Evgen Pharma\* (AIM:EVG) is a clinical-stage drug developer focused on the treatment of cancer and neurological conditions. The company aims to establish a dominant position in the development of therapies based upon sulforaphane, a naturally-occurring compound found in cruciferous vegetables, such as broccoli.

#### **Sulforadex®**

The potential therapeutic benefit of sulforaphane has been demonstrated by numerous scientific publications across multiple disease indications. However, clinical and commercial development is hampered by the molecule's instability at room temperature. Evgen holds the exclusive global licence for Sulforadex®, which we believe to be the only known method of stabilising sulforaphane. With this platform, Evgen is in a leading position for the development and commercialisation of sulforaphane-derived therapies.

## SFX-01Currently in Phase 2 trials in Stroke and Breast Cancer

Evgen's lead drug-candidate, SFX-01, is in two Phase 2 trials for subarachnoid haemorrhage, a type of stroke, and metastatic breast cancer. Together, these indications are estimated to have a current global market sales opportunity in excess of \$4bn per annum. We expect the trials to read-out around the end of 2018.

1. Breast cancer: in July 2018, following a positive interim trial readout, Evgen concluded recruitment in the Phase 2a 'STEM' trial testing SFX-01 in metastatic breast cancer patients as the main aims of the trial (safety, tolerability and clinical benefit) were met.

Figure 1: Evgen Pharma Clinical Pipeline



Source: Evgen Pharma

2. Subarachnoid haemorrhage (SAH): A Phase 2b blinded study is currently under way assessing the safety and tolerability of SFX-01 in SAH patients. The FDA has granted sulforaphane Orphan Drug Designation for the treatment of SAH. This includes special incentives such as tax credits for trials and up to seven years market-exclusivity.

Although Evgen remains focused on completing these trials, other in-house and investigator-led studies has led to further investigations into other disease areas.

#### **Commercial opportunity**

The potential commercial opportunity from its two lead indications (SAH and breast cancer) is substantial. Despite the progress made this year, we believe little of Evgen's opportunity is presently being reflected in the company's market valuation. CDK4/6 inhibitor therapies (CDK4/6i) are a treatment for metastatic breast cancer, with Ibrance (Pfizer), forecast to reach c.\$5bn in sales by 2022. However, tumours tend to become resistant to CDK4/6i after c.2 years, which opens potential for SFX-01 as a second-line therapy following tumour progression. We expect SFX-01 to be of significant interest to large biopharma companies and based on recent similar transactions in oncology, upfront payment plus double-digit royalties appear to be the starting point for commercial negotiations. The current standard-of-care for SAH, nimodipine, is unsatisfactory therefore there is a significant unmet need for improved therapies. Credit Suisse estimated peak sales of \$1.7bn for Edge Therapeutics' nimodipine-based drug candidate (however this recently failed in Phase 3).

#### **Investor symposium**

Evgen will be conducting an Investor Symposium on Tuesday 18th September (09:15-12:00) at Buchanan's office (107 Cheapside, London, EC2V 6DN). The Symposium will be an opportunity to engage with independent experts and the Evgen team to help frame the significance of the two clinical read-outs expected around the end of the year. If you would like to attend please RSVP by emailing tillya@buchanan.uk.com.

\*Northland Capital Partners acts as nominated adviser and broker to Evgen



LIAM GASCOIGNE-COHEN is a research associate at Northland Capital Partners.

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#### >>> feature

## AIM dividends set to exceed £1bn

New research shows how wrong the cliché is that AIM companies are not dividend payers.

A majority of AIM companies still do not pay dividends, but a new report estimates that nearly one-third of the companies quoted on the market do. Six years ago, fewer than a quarter of the AIM companies paid dividends. Larger and more mature businesses are joining AIM and this is increasing the level of dividends paid.

Link Asset Services has published the first AIM Dividend Monitor, which includes data going back six years to 2012 as well as forecasts for this year and 2019. This year dividends are set to be triple the level they were in 2012.

Link analysed dividends in the quarter they are paid, rather than when they are announced. The figures exclude investment funds where dividends rely on income from bonds and shares. It estimates that more than 100 of the AIM companies that have paid a dividend in the past five years have left the market, including the likes of NewRiver REIT, which switched to the Main Market, having paid £26.2m in 2016. These have been replaced by new entrants and existing AIM companies starting to pay dividends.

One-fifth of the total dividends between 2012 and 2017 were paid by companies that joined the junior market during that period.

#### **Dividend growth**

Percentage growth of regular dividends has been in double digits in each year and this rate of growth is expected to continue. The lowest growth rate was 14% in 2017 and the highest was 24% in 2013. The average annual growth rate is 18.6%.

DIVIDENDS BY SECTOR IN 2017 (%)		
_	AIM	MAIN MARKET
Resources	7	7
Consumer goods	11	13
Retail and consumer	15	9
Financials	26	22
Healthcare	6	8
Industrials	24	7
Oil and gas	1	20
Information technology	8	1
Telecoms	2	6
Utilities	0	7

This is a much faster growth rate than for the Main Market, where dividends have grown at 4.9% a year.

Special dividends are more volatile and unusually high special dividend payments in 2016 led to a small decline in total dividends in 2017.

Fourteen out of the top twenty AIM companies by market capitalisation pay dividends, with online fashion retailer ASOS being one of the most noticeable exceptions.

#### Top ten

The payments are being spread out over more companies, with the top ten companies accounting for 24% of all AIM dividends in 2017 compared with 30% in 2012. Five of the top ten payers in 2012 (Highland Gold Mining,

floorcovering supplier James Halstead, antibodies online retailer Abcam, healthcare IT provider EMIS and investment manager Polar Capital) are still in the top ten. The amount those five companies pay has risen from £74.6m to £120.1m.

Some companies move into the top ten because of special dividends. Arbuthnot Banking paid £48m of the £52.9m of dividends in 2016 via a special dividend – nearly one-third of the total special dividends in the year.

It should be noted that convenience stores operator Conviviality was the sixth highest payer in 2017 (£21.8m) and this will not be repeated following its administration and break up.

The top ten Main Market dividend payers account for more than 50% of the cash paid to shareholders. Large companies worth many billions of pounds will pay significant amounts

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#### >>> feature

in cash, even if the yield is not that high, so that is not surprising. Eight of the top ten in 2017 were in the top ten in 2012.

#### **Yields**

The yield for AIM companies is 1.2%, which is less than one-third of the yield of 3.9% for the Main Market. That is not surprising because more Main Market companies pay

Eleven of the twenty companies have a forecast yield of more than 2.1%. The lowest yield is the 0.5% for the former fully listed identification and security services provider GB Group, whose share price is more than eighteen times the level it was one decade ago. Touch screen displays developer Zytronic has the highest yield of 4.5% and the share price has still trebled over ten years.

## The average annual growth rate of AIM dividends is 18.6%

dividends and they will be more mature and, therefore, potentially more cash generative.

Excluding non-payers, the AIM yield is 2.1%. That is attractive relative to cash deposits or even 10-year gilts with the added potential growth in capital via share price rises.

Twenty AIM companies have ten or more years of consecutive growth in dividends. Six of those dividend payers are in the top ten AIM performers over a decade. Two of the top three performers do not pay dividends, but this shows that investing in a company with growing dividends is a good way to achieve share price gains as well.

Admittedly, six of these twenty companies have moved from the Main Market to AIM, including soft drinks maker Nichols and lighting supplier FW Thorpe.

#### **Sectors**

The financials and industrials sectors account for 50% of AIM dividends, compared with 29% of Main Market dividends. Financials have the biggest share of dividends on both markets, but industrials account for 7% of Main Market dividends and

companies are predominantly explorers and developers so few have the cash generative abilities to pay a dividend.

#### **Forecasts**

In the first half of 2018, regular dividends have increased by 25%, with a dip in special dividends leading to overall growth of 22%.

Many final dividends are paid in the first half of the year because of calendar financial year ends. However, some of these finals slip into the third quarter. In 2017, the majority of cash was paid out in the second half of the year and it is set to be the same in 2018.

Total dividends of £1.16bn are forecast for 2018, which is an increase of 20%, despite a further small decrease in special dividends. This would be the first time that dividends have totalled more than £1bn.

AIM dividend payments totalling £1.3bn are forecast for 2019. That

## AIM dividend payments totalling £1.3bn are forecast for 2019

24% of AIM dividends.

The other main difference between the two markets is that oil and gas companies account for 1% of AIM dividends, but one-fifth of all Main Market pay outs. That is not a surprise because BP and Shell are two of the major dividend payers in the UK. AIM oil and gas represents growth of 14%, which is at the lower end of the range in recent years, so it appears reasonably achievable.

The level of dividends indicates the increase in size and maturity of AIM companies. Many of the new entrants to the market pay a maiden dividend within a matter of months.

AIM DIVIDEND	PAYMENTS (£	<b>A</b> )				
	2012	2013	2014	2015	2016	2017
Regular	389.4	484.2	583.3	702.4	825.1	943.7
Special	27.5	64.2	46.2	21.6	155.7	25.9
Total	416.9	551.6	633.7	731	988.8	969.6

FORECAST AIM DIVIDENDS (£M)			
	2018	2019	
Regular	1142.2	1299.3	
Special	17	18.7	
Total	1159.2	1318	





## >>> statistics

## **Market Performance, Indices and Statistics**

AIM SECTOR INFO	RMATION	
SECTOR NAME	% OF MARKET CAP	
Financials	16.8	15.6
Industrials	16.6	17.1
Consumer services	16.6	10.7
Healthcare	12.6	9.2
Technology	11.7	12.7
Consumer goods	11	6.1
Oil & gas	7.5	10.8
Basic materials	5.5	13.4
Telecoms	1.2	0.7
Utilities	0.5	1.1

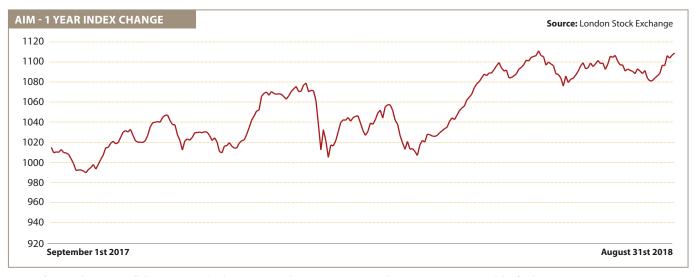
KEY AIM STATISTICS	
Total number of AIM	942
Number of nominated advisers	31
Number of market makers	48
Total market cap for all AIM	£112.8bn
Total of new money raised	£110.1bn
Total raised by new issues	£44.5bn
Total raised by secondary issues	£65.6bn
Share turnover value (July 2018)	£41.1bn
Number of bargains (July 2018)	6.69m
Shares traded (June 2018)	326.9bn
Transfers to the official list	190

FTSE INDICES	ONE-YEAR CHANGES		
INDEX	PRICE	% CHANGE	
FTSE AIM All-Share	1104.11	+9.2	
FTSE AIM 50	6468.34	+10.1	
FTSE AIM 100	5899	+14.3	
FTSE Fledgling	11252	+7.9	
FTSE Small Cap	5837.32	+2.1	
FTSE All-Share	4106.14	+0.8	
FTSE 100	7432.42	+0.1	

COMPANIES BY MARKE	T CAP
MARKET CAP	NO.
Under £5m	138
£5m-£10m	95
£10m-£25m	184
£25m-£50m	162
£50m-£100m	119
£100m-£250m	143
£250m+	101

TOP 5 RISERS OVER 30 DA	YS 🔨		
COMPANY NAME	SECTOR	PRICE (p)	CHANGE (%)
Tiziana Life Sciences	Healthcare	108.5	+130
Abzena	Healthcare	15.25	+106
Pathfinder Minerals	Mining	1.5	+66.7
Thruvision	Support services	27.15	+64.5
SalvaRx	Healthcare	68.75	+63.7

TOP 5 FALLERS OVER 30 DAYS 🔽				
COMPANY NAME	SECTOR	PRICE (p)	CHANGE (%)	
Realm Therapeutics	Healthcare	11.5	-70.1	
Bahamas Petroleum Company	Oil and gas	1.9	-63.1	
RM2 International	Industrial	0.525	-53.3	
FFI	Media	36.5	-50	
Great Western Mining	Mining	0.675	-47.1	



Data: Hubinvest Please note - All share prices are the closing prices on the 31st August 2018, and we cannot accept responsibility for their accuracy.

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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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