Avenir REGISTRARS
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DECEMBER 2020

THE ONLINE MONTHLY FOR THE ALTERNATIVE INVESTMENT MARKET

AIM JOURNAL

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GB Group's AIM accolade

Identity and data intelligence services provider GB Group has won the AIM company of the year award for 2020. This year there was no awards dinner, and the winners were announced online. GB Group switched from the Main Market a decade ago when its market value was much less than its 2019-20 underlying pre-tax profit of £45.7m. The market capitalisation has risen to £1.7bn.

Disinfection products supplier Tristel won the AIM growth business award. International revenues are growing in importance and Tristel is on the brink of gaining FDA approval for a range of products.

Elearning and training services provider Learning Technologies Group won the best use of AIM award. It has used its quotation to make acquisitions around the world.

Inspiration Healthcare's £18m acquisition of SLE was chosen as AIM transaction of the year. SLE is a designer and manufacturer of ventilators for neonatal intensive care. This product range is a good fit with the rest of the products distributed by Inspiration and there will be opportunities for cross-selling.

It was third time lucky for Debbie Bestwick, the founder and boss of video games developer and label Team 17, who finally won the entrepreneur of the year award. Hotel Chocolat was the inaugural winner of the AIM corporate governance award.

Intuitive portfolio

Intuitive Investments Group is a new healthcare investment company planning to join AIM. The focus is fast-growing life-sciences businesses, including diagnostics, medical devices and pharma businesses. The strategy is to build up a portfolio of 10 to 12 investments. They could be private companies or ones that are currently quoted. There is already a pipeline of more than 16 potential investments.

Intuitive is chaired by David Evans, who has been involved in many AIM-quoted pharma businesses. He will not receive "material remuneration" and instead will be paid a performance-related incentive fee. Chief executive Robert Naylor is not due to take up his role until 21 February. He was formerly employed by AIM broker Cenkos Securities. The non-executive directors have experience in life sciences and venture capital.

The investment team will be David Evans, Robert Naylor and the chairman of the advisory panel, Dr Stewart White. Avacta boss Alastair Smith and EKF Diagnostics chief executive Julian Baines, who has previously been involved in quoted diagnostics companies with David Evans, are also on the advisory panel.

The plan is to raise £7.5m at 20p a share, which would value the company at £7.8m. The flotation will happen on 14 December.

Helium One prospect

Attis Oil and Gas has amalgamated with Helium One Global, which has subsequently joined AIM. A placing at 2.84p a share raised £6m, which was more than the £4m initially sought by the helium explorer. The share price jumped to 4.25p on the first day of trading.

Helium One offered one of its shares for 236 shares in Attis, which valued Attis at £1.76m (0.012p a share). Helium One was valued at around £6m prior to the amalgamation and fundraising, which is similar to the investment already put into the helium project in Tanzania over the past five years.

Helium is a colourless, odourless and inert gas and it is used in the medical, aerospace and computing sectors. MRI scanners and welding are the largest users of helium. Global production is lower than consumption and the price has been increasing.

The main focus is the 100%-owned Rukwa project in Tanzania. The exploration licence was renewed in September. A three-well drilling programme is planned for the first half of next year. There are high-grade helium seepages near to the drilling targets. The cash will cover this drilling, 2D seismic work, other exploration and working capital.

If a commercially viable helium source is discovered, then the capital expenditure for a modular process plant will be around $50m. This would take the feedstock, extract nitrogen and produce pure liquid helium. Plant operating costs should be less than $20/Mcf.

Scirocco Energy, previously known as Solo Oil, subscribed for a 10% stake three years ago and that was diluted to 4.3%. The original stake cost £2.55m, so it was bought at a much higher valuation.

Kistos placing

The team behind RockRose Energy has floated a new energy investment vehicle. An initial 50p a share investment in RockRose, when it was a shell, generated distributions and takeover consideration of £20.85 a share in less than five years. Kistos is starting out with a much larger pot of cash. It raised £31.75m at 100p a share, which valued the company at £40.25m. The pre-IPO share issue was at 50p a share. The share price rose to 125p in the first few days of trading. The focus is not just oil and gas opportunitie; there are likely to be investments in energy storage and generation. Kistos is keen on assets that can be repurposed. Several transactions have been identified in the UK and contienntal Europe.

Abingdon tests stockmarket demand

Lateral flow diagnostics products and healthcare services provider Abingdon Health is taking advantage of the increasing demand for Covid-19 tests to raise money and join AIM in early December. Initial orders have been placed and demand for Abingdon's test could be enormous once vaccinations commence.

York-based Abingdon has developed the AbC-19 rapid test, which is an antibody test for Covid-19. The test indicates if a person is generating IgG antibodies to the spike protein of the SARS-CoV-2 virus. This provides a measure of immune response. This will be increasingly important when vaccination begins because the test will show if the vaccines are successful and if an additional dose is required.

The UK government has placed an initial order for one million tests and there is potential to sell the tests to third parties. AIM-quoted Omega Diagnostics is one of the manufacturers of the test and it is expected to supply Abingdon with a quarter of the tests ordered. finnCap assumes that Omega will receive £1.60 for each test.

The US FDA says that it will allow the tests to be distributed to laboratories with CLIA (Clinical Laboratory Improvement Amendments) certification. An emergency use authorisation request has been submitted by Abingdon.

The company also sells other lateral flow tests for self-test HIV, equine infection, fertility, blood cancer and other infectious diseases. There are also tests for fuel and water contamination. Abingdon filed a balance sheet for 22 October 2020. This shows net assets of £1.47m and net debt of £5.6m.

Funds managed by AIM-quoted fund manager Mercia Asset Manager own around 23% of Abingdon. Former AIM-quoted fund manager Touchstone Innovations, which was acquired by IP Group in 2017, holds 5.7%.

WH Ireland increases assets under management

WH Ireland plans to acquire IFA Harpsden Wealth Management for up to £7.8m. This will add £250m to assets under management, which will take the group total to £2bn, and £140m to assets under influence. In 2019, Harpsden made an operating profit of £876,000 on revenues of £2.92m. WH Ireland has identified annual cost savings of £600,000.

WH Ireland is raising £5.3m at 40p a share. Polygon Global Partners and M&G have both maintained their stakes at just below 30% and 15% respectively.

■ Increasing market activity helped **finnCap** to more than double its deal fees in the six months to September 2020. That enabled revenues to jump from £14.2m to £20.5m, while cost savings helped pre-tax profit to improve from £1.5m to £4.3m.

finnCap Analytics, which will generate trading income by providing trading strategies for hedge funds, will be launched next year. Part of finnCap's stake in Primary Bid will be sold for around £700,000, with a shareholding worth £300,000 retained.

The third quarter has started well. Progressive Equity Research expects full year revenues to improve from £26m to £35.8m. Underlying pre-tax profit is expected to more than treble from £1.6m to £5.5m. Net cash could more than double to £9.8m.

■ Online fundraising platform **Primary Bid** has linked up with research provider Edison Group. Edison will write research on new admissions and secondary placings and it will be published on both companies' websites and other partner sites, including Bloomberg.

■ **Aquis Stock Exchange** has launched a market maker incentive scheme. The market makers will offer two-way prices for 50% of stocks on the Apex segment with a maximum spread of 5%. There should be 25 companies on the Apex segment. Market makers will receive warrants for shares in the Aquis Stock Exchange, with the best performers gaining the largest percentage. They could earn up to 19.9% of the market over a three-year period. Early adopters include Canaccord Genuity, Liberum, Peel Hunt, Shore Capital, Stifel and Winterflood.

ADVISER CHANGES - NOVEMBER 2020

COMPANY	NEW BROKER	OLD BROKER	NEW NOMAD	OLD NOMAD	DATE
Aukett Swanke	Arden	finnCap	Arden	finnCap	02/11/20
Keystone Law	Investec/Panmure Gordon	Panmure Gordon	Panmure Gordon	Panmure Gordon	04/11/20
Alpha Financial Markets	Investec/Berenberg	Berenberg	Grant Thornton	Grant Thornton	05/11/20
Renalytix AI	Investec/Stifel	Stifel/N+1 Singer	Stifel	Stifel	06/11/20
ADM Energy	Arden/Hybridan	Hybridan/Pollo Capital	Cairn	Cairn	12/11/20
Oxford Metrics	Numis	N+1 Singer	Numis	N+1 Singer	13/11/20
AFC Energy	Zeus/WH Ireland/ MC Peat	WH Ireland/MC Peat	WH Ireland	WH Ireland	16/11/20
Alien Metals	Turner Pope/First Equity	Turner Pope/First Equity/Novum	Beaumont Cornish	Beaumont Cornish	17/11/20
Infrastructure India	N+1 Singer	N+1 Singer/Cenkos	Strand Hanson	Cenkos	18/11/20
Good Energy	Canaccord Genuity/ Investec	Investec	Investec	Investec	23/11/20
GlobalData	JP Morgan/Panmure Gordon/HSBC	N+1 Singer/JP Morgan/ HSBC	JP Morgan	N+1 Singer	25/11/20
Craneware	Berenberg/Peel Hunt/ Investec	Peel Hunt/Investec	Peel Hunt	Peel Hunt	26/11/20
Serinus Energy	Arden	WH Ireland/Arden	Arden	WH Ireland	26/11/20
Advance Energy	Optiva/Novum	Optiva/Novum	Strand Hanson	Beaumont Cornish	27/11/20

Naked Wines goes from strength to strength with forecasts upgraded

Wine retailer *www.nakedwinesplc.co.uk*

Naked Wines is one of the best-performing larger, non-pharma companies on AIM this year. Having shed the Majestic Wines retail sites, the company is purely an online business. First-quarter sales, when lockdown was at its height, were 77% ahead and second-quarter sales did even better, with an 85% increase. The impressive growth rate appears set to continue.

The subscription model means that new clients are likely to be retained rather than just be one-off purchasers. The retention rate is 95% and existing customers were spending 80% more than previously. There is a concern that more normal conditions could mean that some consumers will go back to buying wine from shops, but Naked Wines is set to continue to grow.

The retention rate is 95%

In the six months to end-September 2020, revenues were 80% ahead at £157.1m, but the company is still losing money. The US has become the largest market for the group. Net cash was £76.3m at the end of September, thanks to lower inventory levels and advanced income from customers.

Peel Hunt increased its full-year sales forecast by 10% on the back of the interims. This suggests that full-year revenues should be more than £330m, up from £203m.

NAKED WINES (WINE)	578p
12 MONTH CHANGE % +163.3	MARKET CAP £M 422.5

The lack of opportunities to go to pubs and events in the UK in particular means that there could be much greater demand for Naked Wines over the Christmas and New Year period, even after the easing of the lockdown. Warehouse capacity has been doubled. Even though, Naked Wines is increasing its revenues it is set to continue to lose money for the next two years. That is because management is investing in recruitment and marketing in order to continue the growth. Chief executive Nicholas Devlin has been adding to his shareholding.

Manolete generates cash and doubles dividend

Litigation finance *www.manolete-partners.com*

Litigation finance provider **Manolete Partners** increased its stated interim pre-tax profit by 49% to £6.4m and the interim dividend was raised by 134% to 1.17p a share.

The focus of the business is cases involving corporate insolvencies and bankruptcies. Since floating, Manolete has been buying most of its claims, although it is still involved with some that it does not own outright and instead it gets a share of the proceeds.

Stated revenues are a combination of realised income and unrealised case valuation gains. This means that Manolete has been profitable over the past five years, but that does not necessarily mean cash generative. Manolete did generate cash before new investments in the six months to September 2020. One major case has extended payment terms so there was a working capital outflow during the period.

MANOLETE PARTNERS (MANO)	265p
12 MONTH CHANGE % -43	MARKET CAP £M 115.5

After the announcement of the interims another case was completed, and this will realise £2.8m in cash out of the total settlement of £7.5m. The first instalment of £1.48m has been received by Manolete and the rest will be paid by the end of 2021. Net debt was £5.4m and there are additional facilities that can be used to finance more cases. There are 219 live cases, with 200 taken on in the past two years and the oldest is from 2017. Although there has been a low level of insolvencies this year thanks to government support, this is likely to change over the next year. The shares are trading on 11 times prospective earnings.

Cyber security services provider Brandshield reverses into Two Shields Investments

Cyber security *www.brandshield.com*

Digital brand protection services provider **Brandshield** reversed into Two Shields Investments in an all-share deal that valued the 80% not already owned by Two Shields at £13.2m. A placing raised £3.2m at 20p a share, following a 200-for-one share consolidation. Brandshield has developed technology that can be used to protect the brands of clients.

The original investment in Brandshield was made by the company when it was known as Blenheim Natural Resources back in 2017. Further purchases of new and existing shares took the stake to 20%. Brandshield was established in 2013 and it moved into its core online protection business in 2017. One of Brandshield's rivals is former AIM company OpSec Security.

The technology protects brands

Brandshield monitors the internet for clients so that it can identify cyber security risks, such as counterfeiting, fraud and phishing, that can damage brands and companies. Once the threat is identified, Brandshield can help to takedown fake websites via interaction with internet service providers and eradicate other problems.

Brandshield's revenues of $1.51m in the first half of 2020 were nearly as much as for the whole of 2019.

BRANDSHIELD SYSTEMS (BRSD)			19p
12 MONTH CHANGE %	0	MARKET CAP £M	21.7

Growth should accelerate when the sales team is increased from two to 15 and there is more money spent on marketing.

It will take time for the investment in sales and marketing to pay back and the cash raised will provide working capital. Mining investments have been inherited from Two Shields and these could provide further funds for the core business in the future. There is also an investment in digital social network platform WeShop, which is already working with Brandshield and is seeking to gain its own listing.

Eqtec on the brink of jump in revenues

Waste-to-energy technology *www.eqtecplc.com*

Waste-to-energy technology supplier **Eqtec** has made frustratingly slow progress over the years it has been on AIM, but that appears set to change over the next couple of years. There are projects in the pipeline that are getting near to obtaining the finance required and a technology review by Wood Group could expand the potential market. Eqtec is also taking stakes in some projects which means that it will develop a valuable portfolio of investments.

Eqtec has developed its own gasification technology that can use various waste streams as feedstock to create syngas, which can be used to generate electricity.

EQTEC (EQT)			0.84p
12 MONTH CHANGE %	+500	MARKET CAP £M	57.7

Revenues are modest, but that will change next year. Arden forecasts 2021 revenues of £48.1m, which will move the company into profit. The timing of projects can be unpredictable so the outturn could be different. The underlying trend, though, is for significant growth in revenues, whatever year those revenues are recognised. The more regular operational and maintenance revenues will build up, but it will take some time.

For example, the exclusivity period for the Billingham waste-to-energy project has been extended more than once, but progress is being made. The latest deadline is 18 December. The deal includes an option for Eqtec and its partners to acquire the project.

Arden forecasts significant cash inflows in the period up until the end of 2022. Cash is expected to be more than £32m by December 2022, which accounts for more than 50% of the company's market capitalisation – even after the recent jump in the share price. That means that there is still upside from the ongoing engineering business and the stakes in the projects.

Calnex Solutions passes flotation test and beats market expectations

Telecoms testing equipment *www.calnexsol.com*

Telecoms testing instrumentation supplier **Calnex Solutions** has made an impressive start to its time on AIM, with a sharply higher share price and improved profit.

Calnex designs and manufactures equipment used by telecoms network operators, network providers and systems suppliers to test their products. Calnex sells a bundle of hardware and software. This is an international business with customers in 68 countries. Asia and the Americas account for the majority of revenues.

In October, Calnex raised £5m after expenses at 48p a share. Existing shareholders raised £16.5m from a placing at the time of the flotation. Chief executive Tommy Cook sold 5.81 million shares. He still owns 21% of the company.

The share price has doubled in two months

In the six months to September 2020, revenues were 37% higher at £7.72m, while underlying pre-tax profit nearly doubled to £2.3m. There was cash of £4.5m before the placing proceeds were banked. Pro forma net cash is £7.6m. The cash will fund additional research and development spending, which is capitalised.

Product innovation will enable Calnex to capture more of the growing market for the implementation of 5G telecoms infrastructure. Investment is focused on products where the demand has already been identified. Calnex also intends to enter new markets. There is potential for acquisitions of products or technologies that fit in with the existing product range.

CALNEX SOLUTIONS (CLX)			95.6p
12 MONTH CHANGE %	N/A	MARKET CAP £M	83.6

The interims have led to an upgrade of the full-year underlying pre-profit expectations to £4.3m. The share price has doubled in less than two months, and the shares are trading on 24 times prospective 2020-21 earnings. That rating is getting nearer to the levels for similar fully listed firms Spectris and Spirent Communications.

Additional capacity set to come on stream at Accsys

Sustainable wood products *www.accsysplc.com*

Accsys Technologies was able to cope with lower demand for its long-lasting Accoya acetylated solid wood from some countries hit by Covid-19 and reported better than expected interims. Accsys diverted some of the production of Accoya into Tricoya wood chips that are used for panel products. Accsys is continuing its progress towards profitability.

In the six months to September 2020, revenues dipped by 3% to €42.9m, but gross margins improved. The underlying loss before tax was €100,000, down from €2.2m. Accoya production at the Arnhem plant in the Netherlands was 6% lower at 26,422 cubic metres.

ACCSYS TECHNOLOGIES (AXS)			112p
12 MONTH CHANGE %	+14.4	MARKET CAP £M	184

The Hull-based Tricoya plant is nearing completion and construction should be completed during the spring. A joint venture has been formed with Eastman Chemicals to develop an Accoya plant in the US. Accsys owns 60% of the joint venture and a final investment decision should be made by next summer.

Net debt was €16.3m at the end of September. Increasing capital investment, including a fourth reactor at the Arnhem facility, means that the net debt figure will rise sharply over the next few years. The plan is to increase capacity to 200,000 cubic metres a year by 2025.

Each cubic metre of Accoya sequesters nearly one tonne of carbon dioxide. Accsys is expected to produce 56,000 cubic metres of Accoya in the current financial year. Record sales were achieved in October. Even so, full-year revenues are expected to be flat at €90.7m and the loss is likely to be €700,000. A pre-tax profit of €3.2m is forecast for 2021-22 and if things go to plan profit could grow substantially after that.

Craft growth reduces IG Design seasonality

Gift wrap and craft products *www.thedesigngroup.com*

Dividend

IG Design was one of the early companies to float on AIM, although it was then known as International Greetings. This means that there is a 25-year track record of dividends, although there was a period in the middle – from 2008 to 2015 – when no dividends were paid due to the poor performance of the business.

There was a 1p a share dividend for 2014-15, followed by 2.5p a share in 2015-16. Last year, the total dividend was 8.75p a share and the latest interim dividend was unchanged at 3p a share. The total dividend could be raised, and the consensus is 9.7p a share, which is around 2.8 times covered by forecast earnings. The forecast dividend for 2021-22 is 11.4p a share.

Business

IG Design has historically been a Christmas-focused business because of its dependence on gift wrap and related products, but that has been changing. This year's CSS Industries acquisition has significantly reduced the seasonality of the group. CSS added craft products as well as increasing scale in other areas. The cost savings from integrating CSS are on course to be better than the $10m initially suggested. Cross-selling benefits should start to come through next year.

Demand for craft products increased during Covid-19 lockdowns and restrictions. The craft and creative play category is likely to generate more than one-fifth of group sales in this financial year, up from 4.6%. Celebrations revenues, predominantly Christmas-related, will generate less than three-fifths of sales, compared with more than three-quarters in 2019-20.

IG DESIGN (IGR)	
Price (p)	620
Market cap £m	597.5
Historic yield	1.4%
Prospectiveyield	1.6%

The results are no longer in pounds and they are now stated in US dollars. The interim figures of IG Design benefitted from a full contribution from CSS. Revenues are split between Americas and international – UK, Europe and Australia. CSS has pushed up the Americas revenues, although international revenues have declined.

Sales from continuing operations were lower but they have held up relatively well. Operations have continued in all markets and the order book has been good,with major retailers ordering early for Christmas.

There is still scope for additional demand for Christmas wrapping and gift products, but time is running out for any significant improvement. Full-year pre-tax profit is expected to be flat at $35m, although shares issued to fund the CSS acquisition mean that there would be a one-fifth decline in earnings per share to 25.5 cents. There should be a significant improvement next year and pre-tax profit could be more than $50m.

Net debt was $23.2m at the end of September 2020 and, following the normal second-half cash inflow, there should be net cash of $65m by March. The shares are trading on 23 times prospective 2020-21 earnings, falling to 17 next year.

Dividend news

Data collection and analysis software provider **D4T4 Solutions** raised its interim dividend by 5% to 0.81p a share even though it lost money in the first half. However, management expects this year's figures to be second half weighted and remains confident that D4T4 will achieve the full-year pre-tax profit forecast of £3.2m, down from £5m. Since the interims, a further £3.5m of contract extensions have been won and that takes additional revenues won in the second half to £9m. This underpins the expectations. Net cash is expected to be £14m at the end of March 2021. The growing recurring revenues base augurs well for the future.

Commercial property investor **Circle Property** reported a 2p a share decline in NAV to 283p a share at the end of September 2020. The regional office portfolio is sited in under-supplied towns and cities, which has helped. Loan to value is 42% and there is £37.7m of undrawn loan facility. New lettings have been secured since March and rent collections have been strong. The interim dividend is 2.5p a share, which is down from 3.3p a share the previous year. The full-year dividend is expected to increase from 5.3p a share to 5.5p a share.

Property assets manager and owner **First Property** has significantly reduced its debt following the sale of a property in Poland. Net debt was £19.8m at the end of September 2020. This puts it in a good position to take advantage of any opportunities in the UK and Poland over the next year or so. Short-term income has declined and there were no performance fees. This meant that interim profit wasa quarter lower at £3.33m. NAV is 54.3p a share. The interim dividend is maintained at 0.45p a share and the full-year total should continue to be 1.67p a share.

Expert view: Registrars

How does Avenir take a different approach to pricing?

By Danny Curran

Back in October, we wrote about our support for those Irish companies that have found themselves forced into a CSD migration as a side-effect of Brexit. A key message when we're talking to these issuers is that we don't need to make any additional charges when it comes to facilitating their migration. It's fair to say that has been received with a degree of welcome surprise, so we felt it would be worth looking in a little more detail about how we price our work, why we can do this – and why this sets us apart.

Technology

We are processing a high volume of transactions for our clients every day, so it's important that we are using technology that can deliver against expectations. From the outset, Avenir Registrars was designed very deliberately to harness the benefits of powerful hardware and bespoke software, whilst also drawing on the expert knowledge of our founders.

As a result, we have built a comprehensive securities registry which can seamlessly handle transactions both at scale and speed.

On top of this, with the management team's experience covering stock broking, exchanges and CSDs, we were able to construct an optimal solution that can run with only a minimal need for human intervention.

Innovation

Since our launch just five years ago, we have sought to develop our products in a way that makes life easier – and ultimately more cost effective – for our customers. One great example of this was the addition of QR codes to any paper certificates that we are asked to produce, as although we encourage securities to be dematerialised wherever possible, we realise this doesn't cater to every eventuality.

The technology has been around since the mid 1990's and those 2D grids have certainly seen a resurgence through the summer, but what it means is that the validity of a certificate can now be checked simply by scanning the code with a smartphone or webcam. There's no longer a need for brokers to manually check details by phone with the registrar.

Self-serve solutions

Legacy registrars have been encumbered by their reliance on legacy systems so that means many requests – even routine ones – have to be processed manually. Because we started with a blank sheet of paper, we were able to design our solution in such a way that gave accredited users the ability to log on and undertake many routine requests themselves, generating real time results immediately.

What's more, given the diverse geographic spread of our issuers, this can be done 24 hours a day, seven days a week. And if they need support, that's only ever a phone call or e-mail away, but feedback has been that our customers truly appreciate the flexibility of being able to retrieve the very latest securities records on a schedule that suits their needs, not those of the registrar.

Scalability

Another benefit of the Avenir approach has been the scalability of our systems. We can accommodate registers of any size and also have the flexibility to expand and contract the offering to meet the client's needs. As a result of this, we can provide right-sized solutions, meaning we can deliver a wholly appropriate service and clients aren't left shouldering the bill for attributes they don't need.

Transparency

Another deliberate consequence of the high degree of automation – which itself translates to exceptionally high levels of accuracy in terms of record keeping – allowed us to become the first registrar to offer fixed price services for many client types. For example, our per transaction costs are so low that we can absorb CREST traffic fees, giving issuers better visibility of their total listing costs for the year ahead. It is precisely this process-driven approach which has also enabled us to absorb the migration fees which many Irish issuers are now being asked to pay when it comes to meeting those requirements for switching their CSD away from CREST.

Accounting for such a change using our technology framework was a relatively minor iteration – and there's no need for clients to be hit with unnecessary fees for what is essentially just the cost of going about our business of delivering a great service, day in, day out.

> Avenir is the first registrar to offer fixed-price services for many client types

DANNY CURRAN is Business Development Manager at Avenir Registrars (www.avenir-registrars.co.uk).

AIM governance progress assessed

The 2020-21 AIM good governance report from the QCA has identified three key themes for small and medium-size companies. Investors appear positive about many aspects of corporate governance but there is still room for improvement.

The Quoted Companies Alliance (QCA) has published its eighth annual review of AIM good governance. There are 50 AIM companies included in the assessment of how well the principles of the QCA code have been followed. Their compliance has been improved or maintained in nearly all the main principles.

The report shows that transparency and compliance by AIM companies is generally good. One gripe is the lack of information about how companies will deal with shareholder resolutions where there is a significant vote against a resolution. The main shortfall in information is thought to be in describing the time commitment of the directors.

The three topics that dominate the latest report are Covid-19, executive remuneration and environmental, social and governance (ESG).

Covid-19

Investors appear to be happy with the communication and information provided by smaller companies and some believe that companies have improved their communication during Covid-19. More business is being done online and that is also true of the provision of shareholder information.

Fund managers are keen to gain more information about how companies'have dealt with the effects of Covid-19 on their businesses and the outcomes of the decisions made. How companies will deal with the continuing challenges of the pandemic is also important for the fund managers.

Investors remain keen on face-to-face meetings and they want them to recommence as soon as it is practical. There does seem a place for video meetings, but they will not completely replace physical meetings and trips to company premises.

Remuneration

Directors' pay has always been a hot topic on AIM. At a time when employees are being furloughed and accepting reductions in their pay it becomes even more important. Investors would not be happy if government assistance went towards paying high salaries to the senior management. Investors want employees and executives to share the pain of pay reductions.

Most AIM companies will find it difficult to achieve targets set before the pandemic. The challenges to corporate performance will have been greater than anticipated. How to reward the effort that has been put in even though financial figures may be disappointing will be something that remuneration committees will need to assess.

ESG

ESG has been gaining momentum as a topic in the past couple of years and Covid-19 has accelerated that progress. Health and safety of employees has come to the fore.

There is a separate ESG report from the QCA and Downing LLP. ESG in small and mid-siz equoted companies: perceptions, myths and realities has been compiled by Henley Business School. The report is based on 30 in-depth interviews plus survey responses from 50 investors and 100 companies.

There appears to be a lack of in-depth understanding of what ESG entails and smaller companies tend to be less knowledgeable about the reporting. In smaller companies it is more likely to be the finance director that is accountable for ESG, whereas the chief executive of larger companies is likely to be more involved.

The main driver of ESG is government and industry regulation, although there is some influence by investors. Even so, there appears to be a gulf between what companies conceive to be their ESG requirements and the consistent implementation in the business. Nearly three-quarters of companies believe they understand the long-term impact of ESG policies, whereas 50% of investors think that.

Investors would like companies to report ESG in a less formulaic, box-ticking way.

The AIM good governance review is available at https://www.theqca.com/article_assets/articledir_444/222291/AIM%20Good%20Governance%20Review%202.pdf.

The ESG publication can be found at https://www.theqca.com/article_assets/articledir_442/221356/QCA_Research_Report_ESG_in_Small_and_Mid-Sized_Quoted_Companies.pdf.

Investors remain keen on face-to-face meetings and they want them to recommence

CGT changes recommended by government adviser

The Office of Tax Simplification has published its first report on Capital Gains Tax and the second is expected to be published next year.

In July, the Chancellor of the Exchequer Rishi Sunak asked the Office of Tax Simplification to review the effectiveness of Capital Gains Tax (CGT) and the current rules. There appears to be a chance that this will lead to greater capital gains tax charges. The first report has been published.

The government is seeking ways of paying for the costs of Covid-19 and generating more income from gains is one way of doing that.

In 2017-18, £9.5bn was generated from 276,000 people paying CGT. That is still more than the £5.2bn generated by inheritance tax – which the Office of Tax Simplification has previously reported on, although it has yet to spark any changes to the tax.

Currently there is an annual exempt amount for CGT – effectively a personal allowance – of £12,300 a year. There are a variety of tax rates depending on the individual's tax band and type of asset. Past losses can be offset against a tax charge. There are also many exemptions and ways of avoiding paying CGT by taking advantage of investments, such as VCTs or EIS.

Retail Investment in Small and Mid-Sized Quoted Companies, a QCA research report, surveyed investors about the most attractive tax breaks. This showed that CGT exemption was most attractive to 14% and CGT roll-over relief to 2%. 19% favoutrdnvestments that can be offset against income tax.

Report

The initial report is on the policy and principles of the tax, while next year there will be a report on technical and administrative issues. There have been more than 1,000 responses to the review from advisers, businesses and individuals. The first report outlines how CGT can distort behaviour.

There are four main recommendations relating to CGT and income tax. The first is that the government should more closely align CGT rates with income tax rates or consider the boundary issues between the two taxes.

The second recommendation is that if the two taxes are more closely aligned the government should consider reintroducing relief for inflationary gains and allow more flexible use of capital losses. The interaction with corporate tax should also be considered.

The third recommendation is that the number of CGT tax rates should be reduced so that it is easier for taxpayers to understand.

The fourth recommendation relates to boundary issue between CGT and income tax. Consideration should be given to whether employees and owner-managers' rewards from personal labour are treated consistently and that could lead to the taxing of more share-based rewards and retained earnings at income tax rates.

There is also a recommendation that the annual exempt amount should be reduced, and only specific categories of assets should be liable to the tax. There is a suggestion that investment managers should report CGT information to taxpayers and HMRC.

> The report suggests that the government should consider replacing business asset disposal relief

Business assets

One area that is of particular interest to AIM investors is the taxation of gains on business assets, where the tax rate can be reduced to 10% on qualifying assets.

The report suggests that the government should abolish investors' relief and consider replacing business asset disposal relief with one more focused on retirement.

Investors' relief covers investments made since April 2016 and disposed of from April 2019. There appears to be little interest in, or awareness of, this relief.

Business asset relief is better known under its previous name of entrepreneur' relief. The report suggests that this relief is mistargeted and an ineffective incentive.

A way to make this relief more focused on retirement would be by increasing the minimum shareholding required and the holding period. There is also a suggestion of an age limit.

Even the possibility of changes to CGT could affect share investment decisions or company owners' decisions to sell off a business, which could provide acquisition opportunities for AIM companies.

Market Performance, Indices and Statistics

AIM SECTOR INFORMATION

SECTOR NAME	% OF MARKET CAP	% OF COMPANIES
Consumer	28.5	15.8
Healthcare	16.8	10.7
Industrials	14.1	16.7
Technology	12.1	11.7
Financials	8.8	11.3
Basic materials	7.4	14.4
Energy	5.8	11.7
Property	3.3	2.9
Telecoms	2.2	2.1
Utilities	1.1	1.2

FTSE INDICES

ONE-YEAR CHANGES

INDEX	PRICE	% CHANGE
FTSE AIM All-Share	1050.54	+13.9
FTSE AIM 50	5802.99	+10.6
FTSE AIM 100	5344.34	+12.6
FTSE Fledgling	9858.92	+3.1
FTSE Small Cap	5853.11	+4.1
FTSE All-Share	3542.87	-12.9
FTSE 100	6266.19	-14.7

COMPANIES BY MARKET CAP

MARKET CAP	NO.
Under £5m	115
£5m-£10m	99
£10m-£25m	149
£25m-£50m	124
£50m-£100m	127
£100m-£250m	106
£250m+	101

KEY AIM STATISTICS

Total number of AIM	821
Number of nominated advisers	25
Number of market makers	47
Total market cap for all AIM	£107.1bn
Total of new money raised	£120bn
Total raised by new issues	£45.7bn
Total raised by secondary issues	£74.3bn
Share turnover value (Oct 2020)	£66.3bn
Number of bargains (Oct 2020)	13.8m
Shares traded (Oct 2020)	764.2bn
Transfers to the official list	193

TOP 5 RISERS OVER 30 DAYS

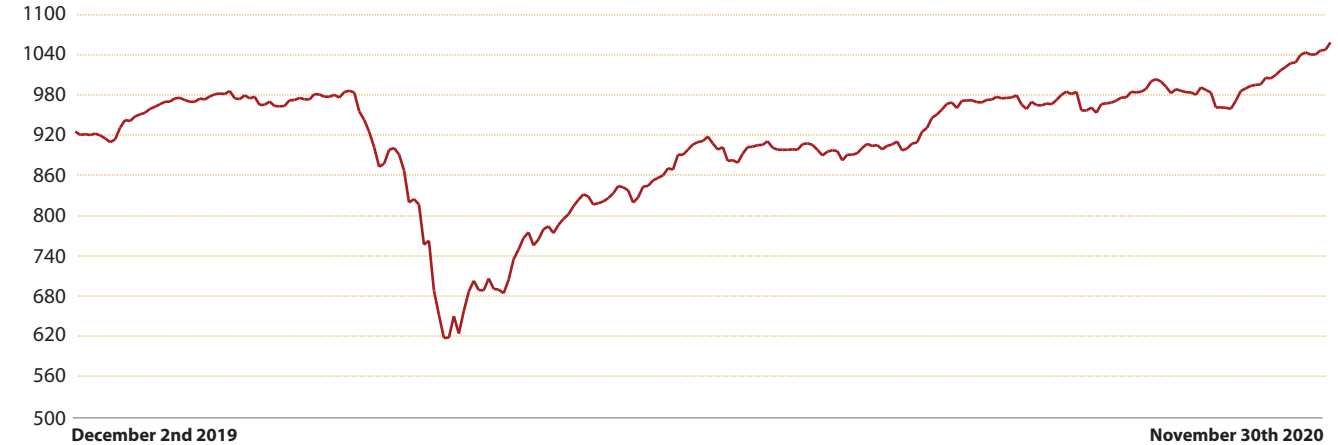
COMPANY NAME	SECTOR	PRICE (p)	CHANGE (%)
Arena Events	Leisure	11.75	+153
Tasty	Restaurants	3.4	+152
Revolution Bars	Leisure	23	+136
AFC Energy	Cleantech	37.7	+118
Attis Oil and Gas	Oil and gas	0.026	+117

TOP 5 FALLERS OVER 30 DAYS

COMPANY NAME	SECTOR	PRICE (p)	CHANGE (%)
Tri-Star Resources	Mining	2.75	-90.8
LoopUp	Telecoms	85	-60.5
Ironveld	Mining	0.38	-58.9
Synairgen	Healthcare	84.5	-49.7
Serinus Energy	Oil and gas	2.15	-47.6

AIM - 1 YEAR INDEX CHANGE

Source: London Stock Exchange



Data: Hubinvest Please note - All share prices are the closing prices on the 30th November 2020, and we cannot accept responsibility for their accuracy.

AIM Journal

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

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

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

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

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

AIM

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

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

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

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

PUBLISHED BY: Hubinvest Ltd,

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