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AIM JOURNAL

In this issue

Mercia buys regional rival

Regionally focused asset manager Mercia Asset Management is acquiring the Venture Capital Trust management business of NVM Private Equity for up to £25m. Mercia has raised £30m at 25p a share to finance the initial cash payment and provide further funds for direct investments. The placing will also help to further dilute the former Woodford stake, which, along with the Investec stake, has been reduced in recent weeks.

The placing price is at a significant discount to the latest net asset value of 42.3p a share. That is a negative, but the deal is a good one for Mercia. The combined group will generate enough income, before movements in portfolio valuations, to cover group costs. A wider spread of investors could also help to improve liquidity.

NVM runs Northern Venture Trust, Northern 2 and Northern 3. The existing managers are moving with the mandates. This means there should be no worries that there will be significant changes in the portfolios. There will be more opportunities for direct investments by Mercia.

The initial payment for NVM is £12.4m in cash and £4.2m in shares at the placing price. There is deferred consideration of up to £8.4m depending on performance over a three-year period. The deal will add £270m to assets under management, taking the group total to a pro forma £770m.

TellYourStory opportunity

AIM Journal is joining the TellYourStory worldwide online network of specialist and financial publishing websites that already includes Bloomberg and Informa Pharma Intelligence. This service allows companies to publish videos about their business and results, plus related publications, such as analyst research, presentations and annual reports, on the relevant websites, including www.aimjournal.info, as well as on their own. Each video broadcast remains live on the network for at least 12 months unless the company wants it to be withdrawn.

In the case of Bloomberg, the company broadcasts are published on the relevant sector front page below the three main news headlines. An example is at www.bloomberg.com/markets.sectors.health-care. The video broadcasts of a company can also be published on their Bloomberg profile page if it commits to paying for four video broadcasts.

The first sector is healthcare, but the intention is to expand into other sectors once there is demand from companies. There will also be additional specialist publishers joining the network.

We will provide more details about TellYourStory in the January edition. For further information email TellYourStory@hubinvest.com.

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Further recovery for AIM

There was a further recovery in the performance of AIM during November. The FTSE AIM All Share index was 3.7% higher over the month, while the FTSE AIM 50 UK index was 5.7% ahead. The FTSE AIM 100 index has risen by 4.6%, but it is still 2.3% lower than one year ago. All three measures of AIM outperformed the Main Market for the second month.

Mixer drinks supplier Fevertree Drinks has the highest weighting in the AIM 50 and AIM 100 and it rose 17.6% in November, following a well-received set of figures that reassured investors that there was still plenty of growth potential in the business. The best performer was Blue Prism, with a 37.4% share price increase as the robotic software company continues to gain new clients. The share price of semiconductor wafers manufacturer IQE has been declining this year, but it fell by a further one-third after a profit warning.

The decline in the share price of litigation funder Burford Capital is likely to be a major factor in the underperformance of the AIM 100 over the past year. It used to have the highest weighting in the index, and it has fallen from 7.33% in June to 3.79% in November. During that period, the market capitalisation of Burford has slumped from £3.1bn to £1.66bn. It has the fourth-highest weighting in the AIM 100.

So far this year, the total return of the AIM 50 is 14.9%, which is better than the AIM 100 with 9.7% and the AIM All Share at 8.9%. However, over a 12-month period the total return for the AIM 50 is 2.3% and the AIM 100 has a total return of -0.8%.

Primary deal

Online fundraising platform PrimaryBid.com has secured a place on the London Stock Exchange's business-to-business platform Marketplace, which is on its website. This will help to accelerate the roll-out of PrimaryBid's services to more companies and investors. The agreement covers initial public offers, share issues by existing quoted companies and retail bond sales. The technology enables all investors to gain access to an issue at the same price as institutions and companies can gain access to a wider range of investors. During the autumn, PrimaryBid raised £7m to finance expansion. Investors included Pentech and Outward VC. PrimaryBid is also developing a pan-European platform with Euronext.

BDO tops AIM auditors list

Data in the Financial Reporting Council's publication, Developments in Audit 2019, show that BDO has 154 AIM-quoted audit clients, which is the most of any auditor. According to the report: "Audits are not consistently reaching the necessary, high standards required to provide confidence in financial reporting". Grant Thornton, which has been placed under increased scrutiny by the FRC due to unsatisfactory inspection results, is the next biggest, with 107 clients. RSM is fifth on the list with 55 clients with smaller auditors accounting for a total of 254 AIM companies.

The study of 846 AIM-quoted companies by Audit Analytics shows that AIM companies paid total audit fees of £86.5m. To put that in perspective, HSBC paid £68.3m in audit fees in its most recent full year. These figures are taken from the most recent annual accounts. BDO accounts for just over 15% of all audit fees and 13.3% of non-audit fees.

The big four audit firms (PwC, Deloitte, KPMG and EY) audit one-third of the firms on AIM, but they generate 56% of total AIM audit fees. They also account for 54% of the non-audit fees of £38.7m paid to audit firms. Deloitte has the highest ratio of audit to non-audit fees of 81:19. Grant Thornton has a ratio of 60:40, while it is 72:28 for BDO.

The big four audit 97% of the FTSE 350 index constituents and generate 99.6% of audit revenues and 98.8% of non-audit revenues. Total audit revenues are £916.4m and non-audit revenues are £279.9m. BDO has five FTSE 350 clients and most of its revenues from these companies come from non-audit work for former AIM online gaming technology company Playtech.

The Competition and Markets Authority has proposed that there should be an operational split between audit and non-audit practices.

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finnCap celebrates first year on AIM

AIM broker finnCap has been quoted for one year and its latest interim figures show that it has managed to continue to be profitable despite the weak stockmarket.

According to chief executive Sam Smith, the demise of Woodford Investment Management and net cash outflows from the UK market have led to a greater focus on liquidity. Money raised by existing AIM companies has fallen by two-fifths and new admissions more than halved.

The comparative figures are for five months and do not include M&A firm Cavendish Corporate Finance. Transaction and institutional stockbroking revenues were lower than in the previous five-month period. This includes a private company fundraising for Parsley Box.

Retainers of £3.17m are slightly higher than the six-month equivalent of the corresponding five-month figure, but lower than in the six months to March 2019. Twelve clients were won in the period, maintaining the total at 127. Six new clients have been signed up since September.

The company's Slide Rule Fund achieved growth of 7.5% in the nine months to September 2019, which is double the benchmark growth rate and a much better performance than AIM.

Cavendish generated revenues of £4.98m and it completed eight transactions – including the sale of Lay & Wheeler by AIM-quoted Naked Wines. New sector specialists are being recruited. There are already some cross-selling benefits, with two sale mandates for finnCap clients and two potential transactions for the debt team.

Overall, interim pre-tax profit was £1.36m. There was cash of £5.06m at the end of September 2019. An interim dividend of 0.42p was announced and the full-year dividend is likely to be 1.4p a share.

Cavendish has a strong pipeline of potential transactions, although it is difficult to predict if or when they will be completed, and there is continued uncertainty concerning the stockmarket.

ADVISER CHANGES - NOVEMBER 2019

COMPANY	NEW BROKER	OLD BROKER	NEW NOMAD	OLD NOMAD	DATE
Reabold Resources	Stifel Nicolaus/Whitman Howard /Turner Pope	Whitman Howard / Turner Pope	Strand Hanson	Strand Hanson	01/11/19
Tekcapital	SP Angel/Novum	finnCap/Novum	SP Angel	finnCap	01/11/19
Kibo Energy	ETX Capital/First Equity	First Equity	RFC Ambrian	RFC Ambrian	05/11/19
Griffin Mining Ltd	Numis	Panmure Gordon	Numis	Panmure Gordon	06/11/19
Litigation Capital Management	Investec/Canaccord Genuity	Canaccord Genuity	Canaccord Genuity	Canaccord Genuity	06/11/19
Abal Group	Stanford Capital/ WH Ireland/Peterhouse	WH Ireland/ Peterhouse	WH Ireland	WH Ireland	13/11/19
ValiRx	Allenby /Novum	Novum	Cairn	Cairn	13/11/19
Mercia Asset Management	N=1 Singer/Canaccord Genuity	Canaccord Genuity	Canaccord Genuity	Canaccord Genuity	14/11/19
City of Londcon Group	finnCap/Peel Hunt	Peel Hunt	Peel Hunt	Peel Hunt	15/11/19
Victoria	Peel Hunt/Berenberg/ Cantor Fitzgerald	Berenberg/Cantor Fitzgerald	Cantor Fitzgerald	Cantor Fitzgerald	20/11/19
Echo Energy	Shore	Cenkos/ Hannam / Shore	Cenkos	Cenkos	22/11/19
Safestay	Liberum	Canaccord Genuity	Liberum	Canaccord Genuity	22/11/19
Mobile Streams	Peterhouse	N+1 Singer	Beaumont Cornish	N+1 Singer	27/11/19
Safe Harbour Holdings	Cenkos/Numis	Cenkos/Numis/ Macquarie	Cenkos	Cenkos	29/11/19
Wilmcote Holdings	Numis	Numis/Macquarie	Numis	Numis	29/11/19

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SkinBioTherapeutics signs maiden cosmetics ingredients deal with Croda International

Microbiome-based skin treatments *www.skinbiotherapeutics.com*

SkinBioTherapeutics has signed its first significant commercial agreement for its SkinBiotix microbiome-based skin health treatment technology with Croda International. There is no upfront payment, but the deal means that SkinBioTherapeutics will not have to invest in production facilities and spend time marketing to potential customers.

Croda already supplies ingredients to large brands involved in skin and hair care and it has its own production facilities. Croda will design and manufacture a new active skincare ingredient based on SkinBiotix and assess other ingredient opportunities. A cosmetic study where 129 volunteers were treated with cream for four weeks has already showed the safety and efficacy of the technology.

There is still £3.1m in cash

The sales and distribution rights are for the cosmetics sector. Any licensed products that Croda sells to its personal-care customers will generate tiered royalties for SkinBioTherapeutics based on revenues generated.

Management is focusing on five channels with cosmetics the first to make commercial progress. AxisBiotix will focus on a treatment for psoriasis, MediBiotix will target eczema and wound care. CleanBiotix will focus on acquired infections – the SkinBiotix technology has been shown to prevent the adherence of the pathogen Staphylococcus aureus. PharmaBiotix, the pharmaceutical channel, is a longer-term venture that would require higher levels of investment.

SKINBIOTHERAPEUTICS (SBTX)			15.5p
12 MONTH CHANGE %	-17.3	MARKET CAP £M	19.9

SkinBioTherapeutics is yet to generate any revenues, but it has been able to make good use of the cash it has raised in terms of the progress made in developing the SkinBiotix technology. There was a cash outflow in the six months to June 2019 and there was still £3.1m left in the bank following a £1.5m share placing during the period. This suggest that there should be around two years of cash available to the company. SkinBioTherapeutics was spun out of fellow AIM company Optibiotix, which still retains a 35.8% stake.

Beximco set to reap investment benefits

Pharmaceuticals *www.beximcopharma.com*

Bangladesh-based generic drugs supplier **Beximco Pharmaceuticals** has completed the majority of its ambitious capital investment plan, yet it has still to get the full benefits of the investment. This will help to supplement the existing organic growth.

An insulin manufacturing facility was opened in May and a nasal spray manufacturing facility is also up and running. A pressurised metered dose inhaler filling line became operational in June and a second line is already planned. There are also new lines planned for other inhaler products.

BEXIMCO PHARMACEUTICALS (BXP)			45.5p
12 MONTH CHANGE %	-6.2	MARKET CAP £M	288.6

The new manufacturing facility for oral solid dosage, liquid and semi-solid products should open early in 2020. It will take about three years for the factory to reach critical mass. The first biosimilar product will be launched next year, with others planned over the coming 24 months.

Even before these additional facilities are making a significant contribution, the business is still growing strongly. In the three months to September 2019, revenues were 17% higher than the same period in the previous year at BDT6,303m, while pre-tax profit was 16% ahead at BDT 1,132m. Growth is coming from increased volumes and higher prices. The move into the US market is progressing well, but it is early days.

Beximco has $70m of capital investment planned over the next three to four years, most of which will be spent on additional manufacturing units and warehousing. The investment that has already been put into the business means that the long-term outlook is positive.

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Focusrite has sights on further acquisitions to widen product range

Audio equipment supplier *www.focusriteplc.com*

Strong sales of the third-generation Scarlett interface enabled audio products supplier **Focusrite** to increase revenues and profit even though it had to contend with higher tariffs due to the trade war between the US, an important market, and China. Focusrite continues to be highly cash generative and it has potential to move into new markets, whether organically or via acquisitions.

In the year to August 2019, revenues were 13% higher at £84.7m, helped by positive currency movements, and pre-tax profit improved from £11.3m to £13.8m. The dividend was raised 15% to 3.8p a share and it is covered 5.6 times by earnings.

There was a small contribution from studio monitors supplier Adam Audio, which was acquired for £16.2m in July. Net cash was still £14.9m at the end of August 2019 and that could rise to £23m in one year.

Lower sales by the electronic music hardware and software business Novation held back the progress made. This was due to the ageing product range and new versions are being launched. The new Summit synthesiser was launched at the end of the period.

Focusrite is shifting production of Scarlett from China to Malaysia in order to avoid the additional tariffs that it has been hit by during the US/China trade war. Production of other products could also be shifted to Malaysia.

FOCUSRITE (TUNE)			589p
12 MONTH CHANGE %	+25.3	MARKET CAP £M	342.6

Even with a full contribution from Adam, profit is not currently expected to grow significantly this year and earnings could be flat due to a higher tax charge. There is potential to increase exposure to some countries and additional market areas, such as podcasting. Having made one acquisition, Focusrite is increasingly confident it can find other earnings enhancing acquisitions that it can spend its cash on.

Maestrano hopes to get back on track

Software *www.maestrano.com*

Maestrano has changed its focus following the acquisition of Airsight, which has developed the Corridor.ai platform that collates and analyses infrastructure geospatial data for rail and other networks. Airsight has won an Australian government tender to fly drones over uranium mining areas of Northern Territory to assess their revegetation.

Maestrano needed to reconsider its future when demand for its banking technology failed to come through. It sought another technology business that might benefit from its expertise. Airsight has three business areas. They are drone-surveying, hardware sales and its Corridor.ai platform, although it is not expected to generate revenues for at least another year. The initial focus is the rail sector, where the technology can significantly cut the cost of track inspections.

MAESTRANO (MNO)			1.5p
12 MONTH CHANGE %	-84	MARKET CAP £M	2.2

Maestrano is issuing up to 73.4 million shares to pay for Airsight. Up to 10% of these shares will be issued in September 2020, depending on revenues achieved in 2019-20 up to a maximum figure of A$1.5m. In the year to June 2019, revenues were A$596,000.

In the year to June 2019, Maestrano revenues declined from £977,000 to £905,000, while the loss increased from £1.93m to £2.68m. These figures are for the period before the purchase of Airsight and just before an Australian banking customer said it was not going to proceed with the company's cloud-based data management platform.

There was still £2.25m in the bank at the end of June 2019. That should be enough cash to enable Maestrano to show that it can win business for the Corridor.ai platform.

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Earnings enhancing deal secures future growth for Kape Technologies

Cyber security software *www.kape.com*

Kape Technologies is almost doubling its earnings per share by acquiring Private Internet Access, which expands the range of security software the group can offer. The acquisition will cost up to $95.5m in cash and shares, plus it is taking on $32.1m in debt. The share price has nearly doubled since the deal was announced.

The cyber security software provider already has a strong recurring revenue base and the deal will take the group subscribers to more than two million. Kape already has an international spread of business and it will have an even stronger position in North America. In 2018, Private Internet Access generated revenues of $47.4m and EBITDA of $14.7m. Its founders will be significant shareholders and the management team is joining Kape.

The VPN market is worth $24bn

Unikmind will remain the largest Kape shareholder, with a diluted stake of 55.9%. Unikmind is also providing a $40m debt facility at an interest rate of five percentage points above LIBOR. This will be used to replace the debt that comes with the acquisition. A further $20m facility is available but is not expected to be required. Kape will have net debt following the acquisition, but this should be paid down over the next two years.

Cyber security is a fast-growing market and Kape will have a full range of products following the acquisition. The Virtual Private Network (VPN) market is currently worth $24bn and it is expected to grow by 50% by 2022.

KAPE TECHNOLOGIES (KAPE)			148p
12 MONTH CHANGE %	+42.3	MARKET CAP £M	219.8

There will not be much of a contribution from the acquisition this year. In 2020, revenues should exceed $120m and pre-tax profit be more than $30m. The shares are trading on just over ten times prospective 2020 earnings – depending on the exchange rate. Despite the strong growth and cash generation there is no current expectation of a return to paying dividends.

Better second half in prospect for Cake Box

Egg-free cakes supplier *www.eggfreecake.co.uk*

Cake Box reported a dip in interim profit, but the outlook is more positive. Profit was held back in the first half by investment in growing the business. The second half should be much stronger, and the infrastructure is in place for a much larger chain of franchised stores.

In the six months to September 2019, revenues were 6% ahead at £8.77m, but underlying pre-tax profit dipped from £1.97m to £1.74m. There was a reduced contribution from new franchises, but there should be more store openings in the second half.

CAKE BOX (CBOX)			166p
12 MONTH CHANGE %	-11.7	MARKET CAP £M	66.4

Management believes it can meet its target of 24 new stores.

The new Bradford warehouse and manufacturing facility is up and running, while the Coventry site is expected to be operational next March. The product range is also being widened, including egg-free macaroons.

Shore Capital forecasts underlying full-year pre-tax profit will rise from £4m to £5m. The shares are trading on less than 17 times prospective earnings, falling to 14 in 2020-21. The interim dividend was raised by one-third to 1.6p a share and that is likely to be one-third of the total for the year. The forecast yield is 2.9%. There should be net cash of £2.8m by the end of March 2020.

Directors have been buying since the results. Finance director Pardip Dass acquired 150,000 shares at 150p each, taking his stake to 9.2%. Chief operating officer Dr Jaswir Singh has bought 5,000 shares at 148.5p each.

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Pleasant dividend surprise by Cambria Automobiles

Motor dealer *www.cambriaautomobilesplc.com*

Dividend

Motor dealer Cambria Automobiles has been paying dividends since 2011, staritng with a final dividend of 0.3p a share. It was maintained the following year and then Cambria started paying two dividends each year. The 2012-13 total dividend was 0.5p a share and it was consistently increased until 2017-18 when it was maintained at 1p a share.

The 2018-19 final dividend of 0.85p a share, following an unchanged interim, meant that the full-year dividend was 10% ahead at 1.1p a share. That was a surprise increase. The dividend is nearly nine times covered by underlying earnings. The shares go ex-dividend on 19 December.

Analysts expect the dividend to be maintained at 1.1p a share this year, but there could be scope for a further improvement.

Business

Cambria joined AIM on 1 April 2010. It did not issue shares to raise cash at that time and it has not done since. The company has funded growth from cash generated from operations and a limited amount of debt. In 2013, the decision was taken to have a greater focus on premium and luxury brands, although Cambria still has franchises with the likes of Vauxhall and Peugeot. Some of the upmarket brands are McLaren, Lamborghini, Bentley and Aston Martin.

The number of franchises operated by Cambria has risen from 37 to 41 since 2010, but the nature of the franchises means that the company is much more profitable. Cambria continues to perform well even though new car sales show no signs of recovering.

CAMBRIA AUTOMOBILES (CAMB)	
Price (p)	66
Market cap £m	66
Historical yield	1.7%
Prospective yield	1.7%

In the year to August 2019, revenues were 4% higher at £657.8m and underlying pre-tax profit increased by a quarter to £12.3m. A shift in focus to the high luxury segment of the market has helped to improve the performance.

New vehicles, used vehicles and aftersales all increased their revenues and there was an improvement in margin on the new cars, due to a reduction in lower=margin sales.

Even though capital investment in new sites and dealerships has been large, net debt is modest at £3.8m. The level of capital spending is reducing, but it is still significant.

Cambria has a solid asset base, with net assets of £65.6m. These are dominated by property. The share price is trading at around NAV, which is forecast to increase to £74m next August.

The future for motor dealers is heavily dependent on how the relationship between the UK and EU ends up. A weaker pound would hamper the sector, as would any potential tariffs on vehicles. Cambria has a strong balance sheet and, depending on the extent of any foreign exchange movements or tariffs, the higher end of the market may hold up better than the volume sector.

Flat profit is forecast for this year, with the shares trading on less than seven times earnings.

Dividend news

A weak residential property market and investment in online conveyancing platform Digital Move is holding back profit at **ULS Technology**, but it intends to continue to edge up its dividend payment. The latest interim dividend is 4% higher at 1.25p a share and the full-year dividend should rise from 2.4p a share to 2.5p a share, even though full-year profit is set to fall from £5.4m to £4.9m. ULS is investing in further development and marketing of Digital Move, so a fall in profit to £4m is forecast for 2020-21, but the dividend is expected to increase to 2.6p a share. That would still be 1.8 times covered by forecast earnings and net debt is forecast to fall from £3.1m to £1.5m. ULS intends to start selling services via Digital Move and this could become significant in 2021-22.

Electronic equipment manufacturer and distributor **Solid State** is trading at record levels and improving margins. The latest interims show a 43% increase in revenues to £33.6m, helped by a full contribution from components and displays business Pacer. Pro-forma growth was 11%. Underlying pre-tax profit was 61% higher at £2.67m. Solid State is on course to achieve full-year profit growth of one-fifth to £4.2m and an increase in total dividend from 12.5p a share to 15p a share. There should be net cash by the end of March 2020.

Billing and customer relationship management software provider **Cerillion** won the contracts it promised it would in the second half and, after a first-half decline, the 2018-19 underlying pre-tax profit increased from £3.1m to £3.5m. The dividend increased from 4.5p to 4.9p. Net cash is £5m. There is a record order book of £22m. A pre-tax profit of £3.8m is currently forecast, although there could be upside from further contract gains.

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Cash-raising concerns for AIM companies

Smaller companies want to raise money, but they think it is going to be more difficult because of the fallout after Woodford's problems with its investment strategy and tougher regulation. The uncertainty over Brexit has not helped either.

Smaller companies believe that raising share capital is more difficult than at any time since 2013, according to The QCA Small & Mid-Cap Survey for the fourth quarter of 2019. Advisers agree, while they think getting private equity backing is the easiest it has been in the history of the survey, which started in 2011.

Of the 110 companies surveyed, 44% expect to raise additional cash in the next 12 months and three-fifths of them want to do it via the public market. Bank finance is favoured by 28%.

Drilling down into the figures, 59% of advisers think it is hard to raise money via the stockmarket, while 10% say it is easy. Whereas, 46% of companies believe that it would be easy and 18% think it would be hard.

59% of advisers think it is hard to raise money via the stockmarket

Woodford

The demise of Woodford Investment Management has had a negative impact on the supply of cash to smaller companies. The problems have highlighted a lack of liquidity but given the large percentage stakes Woodford had in some of the companies there would have been problems selling that size of stake if they were in larger, fully listed companies.

Issuing additional shares and spreading the ownership of the company can help liquidity. The latest fundraising by Mercia Asset Management (see page 1) is an example where, the already reduced former Woodford stake, will be further diluted. That should make it less of a concern for other investors.

Those companies that prefer to borrow tend to not to want to dilute the existing shareholders and they are attracted by low interest rates.

Cash raising

New AIM companies are in short supply. There were seven new AIM admissions, excluding reverse takeovers and readmissions, by the end of October. The lowest figure for a whole year was 36 in 2009. There have already been some new admissions since the end of October and there are a few more due, but AIM will do well to have many more than one-third of the new admissions there were a decade ago.

The lowest amount of money raised by new admissions in the past decade was in 2011, when £613.9m was raised. This year's figure should be more than two-thirds of that number.

Existing companies are also raising less, but the difference is not as large. The £2.79m raised by existing AIM companies so far this year, means that it will be difficult to achieve the 2018 figure of £3.94bn in the whole year. It may still be possible to pass the £3.12bn raised in 2014 – the third-lowest figure in the past decade.

Public v Private

There is a disagreement about the ease of raising public and private equity between advisers and companies. Companies appear to believe that it is much easier to raise money on the public market than it is through private equity. In the case of advisers, there has not been a wider gap in their belief that it is easier to raise private equity than via the stockmarket. That may be because the companies are not willing to do the things that might be required to gain private equity backing.

Generally, companies believe that share issues are more flexible and cheaper than obtaining bank debt. They may not be a good thing. It does appear sometimes that companies believe that they can just issue shares without any consequence, particularly if they are not paying a dividend.

Advisers' net optimism about smaller companies is the lowest since 2012, although smaller company revenues are still expected to grow by a double-digit percentage. Nearly two-thirds of the companies expect to employ additional workers, although the rate of employment growth is slowing.

More information on the survey is available at www.theqca.com.

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Signs of increased life for AIM flotations

Flotations have been in short supply in 2019, but there appears to be some increase in interest as the year comes to an end and companies consider their plans for next year.

It has been a quiet year for new admissions on AIM. There could be as few as ten new entrants in 2019, if reverse takeovers are not included. That is a highly unusual low number of AIM entrants – fifteen years ago there could be that many new entrants in a couple of days – and reflects the uncertain state of the UK economy and the failure to decide on the relationship with the EU.

Brokers talk of their pipelines of potential deals and flotations but few of these companies are braving the stockmarket at a time when they do not know what conditions will be like in the future. They may believe that the General Election will sort out some of the problems, but that is not certain.

AIM-quoted investment company Gresham House Strategic will benefit from the MJ Hudson flotation

This does not mean that AIM has lost its usefulness as a source of finance for growing companies. Once the outlook is more positive then there will be an upturn in new admissions, although there will not be a return to the days when there were hundreds each year.

Some companies that announce their flotation plans do not end up joining AIM. Pacific Petroleum Holdings was due to come to AIM in November, but this flotation has gone quiet. Japanese technology company Uhuru Corporation has also failed to complete an expected flotation.

Here are the most recent AIM entrants plus a few potential new admissions over the next few months.

Longboat Energy

Longboat Energy raised £9.5m at 100p a share at the end of November. Longboat is run by the same team as Faroe Petroleum prior to its takeover. Shareholders include Blackrock, Canaccord Genuity and Fidelity.

Longboat is effectively a cash shell. The placing costs were £740,000. The board will be paid £802,000 a year in fees and there is also an incentive scheme for the founders.

Management believes that recent acquisition activity in the oil and gas sector will lead to rationalisation of acquired portfolios. There will be smaller projects that are non-core but would be interesting for Longboat. The strategy is to develop a North Sea-focused exploration and production business.

The geographic focus is Norway and the UK, where the management has decades of experience. An initial acquisition should have assets that can produce near-term cash flow to finance growth. The first acquisition is expected to have an enterprise value of between $10m-$500m so another share issue is likely to be required.

Pebble Group

Promotional products supplier Pebble Group joined AIM on 5 December. It raised £79m at 105p a share, with the selling shareholders raising £56m of that cash. The market capitalisation was £175.8m. The shares immediately went to a premium. Prior to the placing, the main shareholders were Elysian Capital, Beechbrook Private Debt III SARL and management.

Manchester-based Pebble (www.thepebblegroup.com) is a relatively small player in a global promotional products market worth more than $50bn annually. It has strong relationships with major global brands and with smaller promotional products suppliers.

The main subsidiary Brand Addition was previously owned by Bemrose Corporation, which became 4Imprint. That business was sold to HIG Capital for £24m in early 2012, when chief executive Christopher Lee and finance director Claire Thomson joined the board. In 2011, revenues were £65m. Private equity firm Elysian Capital invested in Brand Addition in May 2017 when it acquired the corporate vehicle that owned the business.

Pebble has two main businesses: Brand Addition (www.brandaddition.com) and Facilisgroup (www.facilisgroup.com). Facilisgroup was acquired for £23.4m in December 2018 to form Pebble.

Brand Addition provides promotional products to global companies, which own brands in sectors including health, beauty, consumer goods, transport, technology, charities and financials. Nearly all this company's revenues are repeat business with long-standing clients.

Facilisgroup is a Software-as-a-Service business that provides services to smaller promotional product

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distributors in the US and Canada. The services offered include order management, customer relationship management and reporting. Facilisgroup also offers a service that consolidates the buying power of its clients. This is a much higher-margin business.

Aggregated revenues were £99.8m in 2018, while EBITDA was £13.7m.

Possibles

There are companies considering an AIM flotation in the coming months. Some are more likely than others to make it to the junior market.

Gemfields

Gemfields potential AIM flotation was covered in the October 2019 edition (see here https://1474905f-aad0-40a5-8dcd-4dc4e9058629.filesusr.com/ugd/4a43e3_c4ae69ce9265491582f65e5f72ddf1f2.pdf). The flotation of Gemfields appears to have been held up by concerns about corporate governance. Brian Gilbertson is stepping down as chairman because he is the father of chief executive of Sean Gilbertson. He is being replaced as chairman by Martin Tolcher, who has been a director of the company since 2008.

Gemfields, which is already listed on the Johannesburg Stock Exchange, is not expected to raise any cash when it joins AIM. It is profitable and cash generative. It is anticipated that the AIM quotation will improve liquidity. Gemfields operates emerald, ruby and beryl mines in Zambia and Mozambique, as well as owning the Fabergé jewellery business.

MJ Hudson

Jersey-registered MJ Hudson (www.mjhudson.com) provides support services to alternative fund managers and asset owners. There are three divisions to the business. The first is advisory, the second business outsourcing and the third is data and analytics.

The strategy is to be a consolidator in the sector, but it has been difficult to find acquisitions at the right price.

MJ Hudson Ltd, which appears to be the main UK-based subsidiary, generated revenues of £9.36m in the year to June 2019.

An existing AIM company that will benefit from the MJ Hudson flotation is investment company Gresham House Strategic, which made a £1m pre-IPO investment in the company during 2016. The investment was in the form of a convertible loan note with a 7% coupon. Additional investments were subsequently made in the form of a small share stake as well as more convertibles.

Gresham House Strategic has been required to be patient and it was expecting MJ Hudson to float at an earlier date. Earlier this year, £700,000 was raised through a partial redemption of the loan notes. The remaining investment was still valued at £2m and the convertible price is at a discount to the flotation price.

Founder Matthew Hudson is chief executive and will continue to be a major shareholder. Cenkos Securities expects to bring MJ Hudson to AIM in the middle of December.

Dobbies Garden Centres

Garden centres operator Dobbies may be returning to AIM next year. Scotland-based Dobbies originally joined AIM in March 1997. It was acquired by Tesco more than a decade ago and the supermarket operator sold the business for £217m in 2016. Dobbies was valued at £9.4m when it joined AIM.

Dobbies generated revenues of £166m in the year to February 2019. It doubled its size earlier this year by acquiring 31 sites from Wyevale Garden Centres. This takes the number of garden centres it operates to 69; they generate more than £300m in annual revenues.

Management wants to gain a quotation in the next 12 months. This could be on AIM or the Main Market.

World Chess

World Chess is hoping to secure an AIM flotation next year and as a precursor it is raising money via a digital token issue. The tokens can be swapped for shares if the company does gain a quotation or they can be privately traded themselves. The amount raised will probably be a few million pounds.

Founder Ilya Merenzon believes that chess is an underexploited sport. World Chess has the commercial rights to chess governing body Fide's Grand Prix series, and it wants to develop a more broadcast-friendly chess competition as well. There is also talk of World Chess clubs in major cities.

According to the World Chess accounts it did not have any revenues up until the end of 2018. The stated strategy was to organise chess tournaments in 2019 and future years. It also wants to develop digital chess gaming products.

Supply Me

Inventory finance fintech company Supply Me (www.supplyme.tech) is considering floating in London.

NEX Growth Market-quoted Eight Capital Partners stated that Supply Me is considering a flotation in one of its announcements. Eight Capital Partners converted €2m owed by Finance Partners Group into shares that takes its stake in the investment company, which has an investment in Italy-based Avantgarde Group, to 40%. Avantgarde currently owns 100% of Supply Me.

The first pilot of inventory financing technology was in 2016 and the company set up at the end of 2017. The technology is already generating business. Effectively, this technology puts funders together with companies that need finance.

Lombardy-based Supply Me has secured a partnership agreement with blockchain company SIA to launch an inventory monetisation platform. This will help companies to generate incomee from their unsold stock.

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Market Performance, Indices and Statistics

AIM SECTOR INFORMATION

SECTOR NAME	% OF MARKET CAP	% OF COMPANIES
Consumer	27.6	16.2
Industrials	15.8	15.8
Healthcare	12.2	9.9
Technology	11	12
Financials	11.1	12.2
Energy	7.8	11.1
Basic materials	5.6	13.6
Property	5.6	3.1
Telecoms	1.9	2.5
Utilities	1.1	1.5

FTSE INDICES

ONE-YEAR CHANGES

INDEX	PRICE	% CHANGE
FTSE AIM All-Share	922.48	-0.8
FTSE AIM 50	5246.61	.+0.6
FTSE AIM 100	4746.89	-2.3
FTSE Fledgling	9558.66	-8.9
FTSE Small Cap	5620.25	+4.4
FTSE All-Share	4066.73	+6.4
FTSE 100	7346.53	+5.2

COMPANIES BY MARKET CAP

MARKET CAP	NO.
Under £5m	160
£5m-£10m	96
£10m-£25m	160
£25m-£50m	128
£50m-£100m	124
£100m-£250m	116
£250m+	92

KEY AIM STATISTICS

Total number of AIM	876
Number of nominated advisers	28
Number of market makers	48
Total market cap for all AIM	£96.9bn
Total of new money raised	£115bn
Total raised by new issues	£45.3bn
Total raised by secondary issues	£60.7bn
Share turnover value (Oct 2019)	£49.9bn
Number of bargains (Oct 2019)	8.55m
Shares traded (Oct 2019)	501.9
Transfers to the official list	191

TOP 5 RISERS OVER 30 DAYS

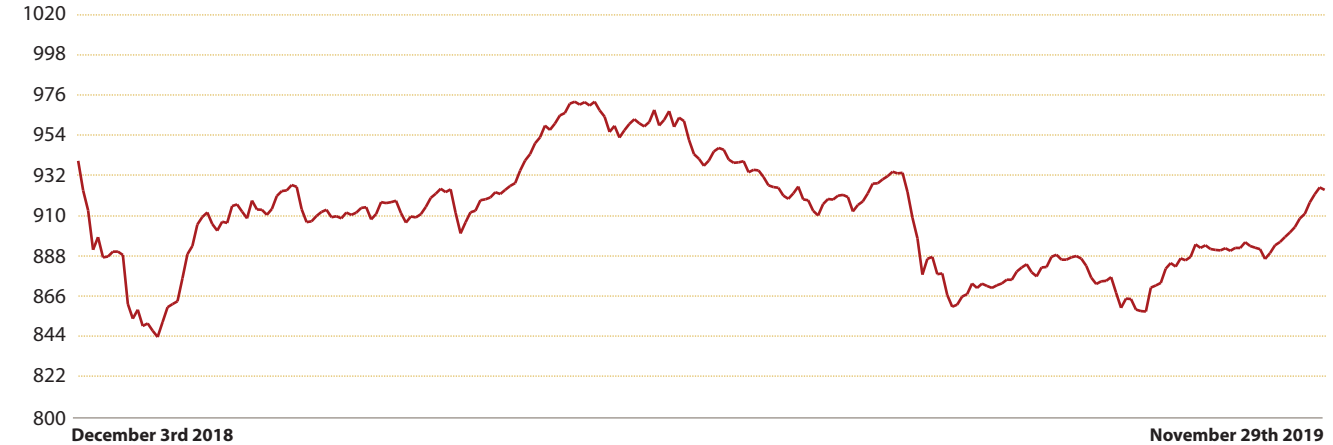
COMPANY NAME	SECTOR	PRICE (p)	CHANGE (%)
Rockfire	Mining	1.35	+315
AFC Energy	Cleantech	18.6	+280
Petrel Resources	Oil and gas	21	+205
ImmuPharma	Healthcare	21	+146
Clontarf Energy	Mining	1.2	+138

TOP 5 FALLERS OVER 30 DAYS

COMPANY NAME	SECTOR	PRICE (p)	CHANGE (%)
Wilmcote Holdings	Shell	3	-94.3
FastJet	Travel	0.275	-80.7
Verseon Corp	Healthcare	1.75	-75.9
LightwaveRF	Consumer	1.85	-71
Defenx	Technology	0.95	-65.5

AIM - 1 YEAR INDEX CHANGE

Source: London Stock Exchange



Data: Hubinvest Please note - All share prices are the closing prices on the 30th November 2019, 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 accessed via http://www.hubinvest.com/AimJournalDownload.htm.

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

AIM

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

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

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

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

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