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MARCH 2014

AIM JOURNAL

THE ONLINE MONTHLY FOR THE ALTERNATIVE INVESTMENT MARKET

Close identifies AIM appetite

A survey of 601 small and medium-sized UK businesses by Close Brothers Asset Management showed that 15% would like to join AIM. Not all of these will be suitable businesses for AIM but it shows that UK businesses have an appetite for an AIM flotation. The improvement in the performance of the junior market has undoubtedly helped to spark the increased interest.

The Close Brothers Business Barometer survey was conducted at the end of 2013 and 15% of the companies surveyed are already on AIM, with 90% of these saying that the quotation has had a positive impact on their business. A significant positive impact has been enjoyed by 43% of the AIM companies. Construction companies were most likely to believe that there was a significant benefit. Just 1% of all the AIM companies thought that there was a negative impact from being quoted.

Engineering companies are the most likely to come to AIM according to the survey. More than a quarter of the companies in this sector that were surveyed were planning to join AIM. In regional terms, businesses in northeast England are most likely to want to join AIM.

Although these companies would like to join AIM it is important that their advisers are upfront with them about what this will entail and whether or not they are really suited to being quoted companies.

Scope for governance improvement

A survey of corporate governance reporting behaviour by the Quoted Companies Alliance (QCA) and accountants UHY Hacker Young shows that there is scope for improvement. The level of disclosure by smaller companies varies greatly but there is no reason why the disclosure cannot be improved.

One-third of the remuneration committee reports reviewed did not explain how the company's remuneration policy aligns with the company's overall strategy. More than half of the companies did not explain the independence of their non-executive directors.

The 100 companies in the sample were quoted on AIM, the Main Market and ISDX. The quality of the information provided was not assessed, just whether or not the required information was included in the annual report. The benchmark was the QCA's Corporate Governance Code for Small and Mid-Size Quoted Companies.

Before publication seven institutional investors and other interested parties provided feedback on what aspects of the survey were considered to be most significant. Tim Ward of the QCA says: "This review is designed to help directors of quoted companies to communicate better with their existing and potential investors".

In this issue

HubInvest publishes AIM Journal

www.hubinvest.com

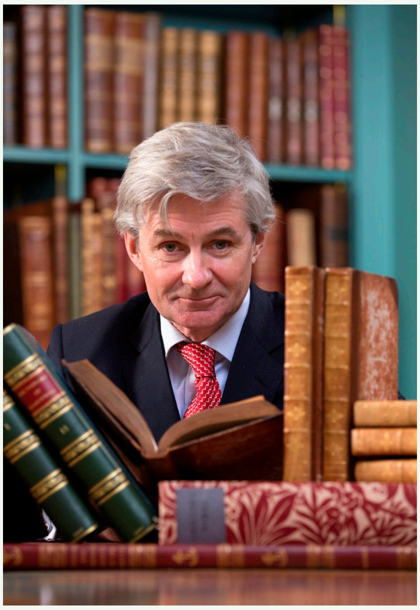
general news

Scholium's rare value

Rare books and documents dealer Scholium Group plans to join AIM in the middle of March. The cash raised will enable Scholium to increase its stock of rare books and other paper-based works as well as to fund increased trading of collectibles. The flotation will also enhance the profile of the group's operations.

Scholium's main businesses are book dealer Shapero Rare Books, bookseller South Kensington Books and Ultimate Library, which creates libraries for residencies and hotels. The group was established in 2009 by its current chief executive, Philip Blackwell, who previously ran Oxford-based bookseller Blackwell and was on the board of academic publisher Blackwell Publishing, which was sold for £572m in 2007. Scholium is chaired by Jasper Allen, who was a founder of coins dealer Noble Investments, which was recently acquired by Stanley Gibbons for £42m.

Scholium's core UK market is worth £200m a year, with two-fifths of



the business going through major auctioneers. In the year to March 2013, Scholium generated revenues of £5.93m, with the vast majority coming from the Shapero business. A dividend is planned for June 2015.

AIM on Horizon

Personalised medicine research tools supplier Horizon Discovery Group, whose investors include Abcam founders Jonathan Milner and Dr David Cleevely, is raising £25m ahead of its AIM admission. Shares will also be sold by existing shareholders. Cambridge-based Horizon has developed the GENESIS gene editing and XMAN cell line platforms. The cash raised will be spent on raising awareness of Horizon's services and widen the sales and distribution channels. Horizon also wants to develop, acquire or in-license new product ranges and intellectual property. Personalised medicine is a growing market and Horizon can help drug developers to model the genetic anomalies that can cause diseases and test whether medicines can successfully treat particular diseases. In 2013, revenues increased by more than 70% to £6.6m and these revenues came from 353 different customers in both the academic and commercial sectors.

Technology could help Athabasca progress

Canada oil sands project developer Athabasca Resources, in which AIM-quoted TXO has a 20% stake, is targeting an AIM flotation in the next few months. An upgraded competent persons report is being finalised so that Athabasca can go ahead with its flotation.

Athabasca has entered into an agreement to acquire a 50% farm-in interest in a number of Alberta Crown leases covering 7,936 hectares in the Athabasca oil sands in Alberta, Canada – known as the Chard oil sand leases. The Athabasca oil sands account for the vast majority of Canada's potential reserves and reductions in the cost of extraction have made more of these reserves commercial over the past decade. However, not all of the reserves are commercially viable.

The leases that Athabasca is farming in to are the same ones that AIM-quoted Mercom Oil Sands planned to farm in to when it floated in 2012. Mercom's new management reviewed the agreement later that year and wanted to renegotiate the agreement with Nordic Petroleum but talks broke down. At the end of 2013, an out-of-court settlement was agreed.

Mercom's change of mind about the Chard lease has to raise questions about the asset. However, this is where TXO can come in. TXO has a 25.1% stake in Oil Recovery Services Ltd (ORS), which has developed technology that can enhance oil recovery. TXO also has a 30% stake in Oil Tech Royalties Inc, which has technology that can be used to change the dissolution, diffusion and crystallisation speeds when heavy crude oil is treated. These technologies could be used by Athabasca to make the extraction of oil from the oil sands more cost-effective.

advisers

WH Ireland set to benefit from stronger markets

Business is picking up for AIM adviser WH Ireland and it has opened an office on the Isle of Man in order to grow its international business. WH Ireland did not float any companies on AIM last year but already has some lined up for 2014.

In the year to November 2013, revenue increased 18% to £29.7m and the company swung back to profit. The dividend has been trebled to 1.5p a share. Both wealth management and corporate broking divisions increased their contribution, with the former boosted by the purchase of the Seymour Pierce client list. Funds under management jumped 43% to £2.5bn and even stripping out acquisitions and the market recovery there was growth. Regulatory approval has been received in the Isle of Man and this will be the company's base for international wealth management services, particularly pensions business. There is also scope to win corporate clients based on the island.

Alan Kershaw has stepped down as finance and operations director and the finance director role will move from Manchester to London.

Equity Development forecasts a 2013-14 profit of £1.9m, and believes that its sum-of-the-parts valuation of 146p a share is "very conservative" because it does not attribute any value to the corporate broking activities.

Leading AIM adviser finnCap, sponsor of AIM Journal, has launched a technology index and an exploration and production index both of which cover small and mid-cap companies in each of the sectors. The constituents of each index are all quoted in London and AIM companies make up the majority of these constituents. This follows last month's launch of the finnCap 40 Mining index. Each index differs from a standard FTSE sector index because each constituent has an equal weighting. That means that the larger companies do not dominant the index. The investment committees will be run by the finnCap sector teams and GB Indices.

The finnCap 40 Tech index does not include any globally diversified telecoms businesses and the maximum market capitalisation is £1.5bn. finnCap has 36 corporate clients in the technology and telecoms sectors, with a total value of £2.9bn.

The finnCap E&P index concentrates on the oil and gas exploration and production companies rather than major integrated oil companies. The minimum market capitalisation is £50m and there are liquidity considerations. finnCap has seven clients in the sector.

Credit Suisse Securities (Europe) has asked to be removed from the nominated adviser register.

ADVISER CHANGES - FEBRUARY 2014

COMPANY	NEW BROKER	OLD BROKER	NEW NOMAD	OLD NOMAD	DATE
Bushveld Minerals Ltd	Fox Davies	Fox Davies	Strand Hanson	Fox Davies	03/02/2014
IXICO	Daniel Stewart/ Peel Hunt	Peel Hunt	Peel Hunt	Peel Hunt	06/02/2014
Private & Commercial Finance Group	Panmure Gordon/ Westhouse	Daniel Stewart	Panmure Gordon	Westhouse	06/02/2014
Vernalis	Canaccord Genuity	Oriel	Canaccord Genuity	Oriel	07/02/2014
San Leon Energy	finnCap/Macquarie/ Fox Davies	Macquarie/ Fox Davies/ FirstEnergy	Westhouse	Westhouse	10/02/2014
Sports Stars Media	Peterhouse/Sanlam	Sanlam	Sanlam	Sanlam	10/02/2014
URU Metals Ltd	Beaufort/WH Ireland	WH Ireland	WH Ireland	WH Ireland	10/02/2014
Concha	Zeus/Peterhouse	Peterhouse	Strand Hanson	Strand Hanson	12/02/2014
Mentum Inc	Peterhouse	Peterhouse	finnCap	ZAI	13/02/2014
Plant Impact	Peel Hunt	WH Ireland	Peel Hunt	WH Ireland	14/02/2014
Clear Leisure	Peterhouse	Peterhouse/ Westhouse	Cairn	Westhouse	17/02/2014
Evocutis	Cairn	XCAP	Cairn	Zeus	18/02/2014
Anpario	Peel Hunt	finnCap	Peel Hunt	finnCap	24/02/2014
Quixant	finnCap	Smith & Williamson	finnCap	Smith & Williamson	25/02/2014
Real Good Food Company	Daniel Stewart/Shore	Shore	Shore	Shore	25/02/2014
Cluff Natural Resources	Panmure Gordon	Shore	Panmure Gordon	Shore	27/02/2014

company news

Johnson Service Group enters budget hotel sector through Bourne purchase

Textile and drycleaning services — *www.jsg.com*

JOHNSON SERVICE GROUP (JSG)			52p
12 MONTH CHANGE %	+27.6	MARKET CAP £M	150.2

Textile and drycleaning services provider **Johnson Service Group** is acquiring Bourne Textile Services, which will give Johnson a strong position in the volume hotel linen market. This is part of Johnson's strategy to grow by acquisition in the textile services market following the exit from facilities management.

Johnson is paying £22m for Bourne and the assets include a freehold building, which after an impairment charge will be valued at between £3.3m and £4.3m. The current owner is retiring but the rest of the management is staying. A placing at 51p a share has raised £12.8m after expenses to help finance the acquisition.

Bourne provides services to 350 hotels with 28,000 bedrooms and operates from a factory in the Midlands, which was extended last year and has 30% spare capacity. The customers range from budget hotels to three-star and four-star hotels. The factory extension is used to service Premier Inn. The customers are all within a 100-mile radius of the factory in the Midlands, south Yorkshire, East Anglia, north London and the Home Counties. There are 18,000 new hotel bedrooms under construction in this trading area alone.

Johnson has acquired a well-invested, growth business

Johnson has acquired a well-invested business that has a record of consistent growth over the years. Bourne fits well geographically with Johnson's facility in Dorset. In the year to February 2013, Bourne made a pre-tax profit of £2.4m on revenues of £15.4m.

Net debt was £24.5m at the end of 2013 and even after acquiring Bourne Johnson will be well within its £70m debt facilities so it will have the finance to make further acquisitions that could take it into additional markets, such as healthcare.

Johnson's ongoing operations are growing organically, although low-margin and unprofitable business is being shed. In 2013, revenues dipped from £198.7m to £193.6m but underlying profit was a quarter higher at £13.4m. The dividend was raised by 10% to 1.21p a share and the investors in the placing will also receive this dividend.

The decline in revenues came from the drycleaning business, where poorly performing branches were closed. However, operating profit improved from £1.3m to £1.6m. This division is gaining business because of its use of the GreenEarth process. Textile rental grew its revenues despite the loss of a major customer and remains the main profit and revenues contributor.

Netcall investment fuels further growth

Call-back technology services — *www.netcall.com*

NETCALL (NET)			50p
12 MONTH CHANGE %	+32.5	MARKET CAP £M	61.7

Demand for the software and services of call-centre technology developer **Netcall** continues to be strong across the public and private sectors. Netcall has invested in the development of its Liberty platform and it will develop and acquire additional services that it can cross-sell to customers.

In the six months to December 2013, revenues grew 3% to £8.4m after a one-third decline in non-core MovieLine revenues to £700,000. Two-thirds of revenues were from existing clients. Pre-tax profit rose 3% to £1.4m. Net cash was £10m at the end of 2013.

Netcall says that its clients save an average of 75 seconds per phone call and NHS Trust customers have saved £1.1m in costs from patients who previously might not have attended their appointments.

House broker finnCap forecasts that full-year profit will edge ahead to £4.2m. The business is cash generative and net cash is expected to increase to £11.1m by the end of June. The shares are trading on 20 times prospective 2013-14 earnings.

company news

dotDigital accelerates investment and builds US base

Digital marketing services *www.dotdigitalgroup.com*

Email marketing services provider **dotDigital** is starting to generate organic growth from investment in its existing operations but the full benefits will not show through until the next financial year.

In the six months to December 2013, revenues from continuing operations grew from £5.71m to £7.57m, with most of the growth coming from monthly usage fees. Revenues in the US increased from $88,000 to $456,000 and this has just scratched the surface. The average recurring monthly spend per client is 19% higher at £284. Underlying profit growth was slower because of the investment in growing the business. Pre-tax profit still improved from £1.97m to £2.16m. Net cash was £7.3m at the end of 2013.

dotDigital continues to invest in the dotMailer email platform and it has launched a Magento connector which enables customers to synchronise data between the two platforms. The average recurring spend from these Magento clients is around £700 a month. A consumer insight module is about to be launched.

Cash generation is strong

Although organic growth is the focus, acquisitions are a possibility if they can be done at the right price. It takes as much to migrate an acquired customer as it does to gain a new customer and the valuations of many potential acquisitions are too high. Some of the UK competitors have owners that are approaching retirement so they may become available over the coming years.

DOTDIGITAL (DOTD)			32.88p
12 MONTH CHANGE %	+105.6	MARKET CAP £M	91.8

Chief executive Peter Simmonds and fellow directors Tink Taylor and Simon Bird have each sold 1.5m shares at 29.81p each, following the recent results announcement. Institutional investors acquired all of the shares. The three directors still own 29.4% of dotDigital between them.

House broker N+1 Singer forecasts an improvement in full-year profit from £3.3m to £3.5m, with a jump to £5.7m in the year to June 2015 as the investment pays off. Cash generation should be strong enough for net cash to reach £10m by the end of June 2015. The shares are trading on just over 20 times prospective 2014-15 earnings.

Probability agrees GTECH bid

Mobile gaming *www.probability.co.uk*

Worldwide gaming and lottery operator GTECH is bidding 50p a share for mobile gaming company **Probability**, which values the bid target at £18m.

Probability has never quite achieved what it was hoped it could. GTECH says that "Probability has established an industry leading capability to quickly create and bring to market games which work on multiple devices and in numerous regulated jurisdictions". Despite this, Probability has consistently lost money, other than a maiden quarterly profit in the fourth quarter of the year to March 2013. Management would argue that they were investing to grow the business but it floated on AIM in August 2006 at 76p a share and has had plenty of time to generate profit on top of financing continued investment in the business. In the six months to September 2013, net gaming revenues dipped from £4.53m to £3.64m. At the end of 2013, Probability had net cash of £1.4m.

PROBABILITY (PBTY)			48p
12 MONTH CHANGE %	-29.2	MARKET CAP £M	17

Milan-listed GTECH will provide the scale that could help Probability to grow profitably and accelerate the deployment of its technology. GTECH has annual revenues of more than €3bn, although it also had net debt of €2.55bn at the end of 2012. There will also be cross-selling opportunities.

The bid is subject to clearance by the various authorities which cover the regulation of Probability's activities. This includes Gibraltar, Italy and the UK.

company news

Robinson's Polish deal could double earnings per share

Packaging *www.robinsonpackaging.com*

Packaging manufacturer **Robinson** is acquiring Poland-based plastic packaging supplier Madrox for £13.2m. House broker WH Ireland believes that this might double Robinson's full-year earnings per share. The deal is expected to be completed in May.

The initial cash payment will be £10.6m. The sale of a site in Chesterfield should have meant that Robinson's net cash improved from £1.3m in June 2013 to nearer £6m at the end of 2013. The rest of the payment will come from a property-backed loan. Robinson has significant property assets, including some with development potential that is not recognised in the June 2013 NAV of £24.1m.

The other £2.6m payable for Madrox is dependent on performance in 2015. If the deal does not go ahead, Robinson has to pay a £600,000 penalty fee.

Madrox expands Robinson's position in central Europe

Madrox expands Robinson's position in central Europe. It supplies blow, stretch-blow and injection moulded plastic packaging to the household, toiletries and cosmetics sectors. In 2012, Madrox made a profit of £2m on revenues of £9.2m. Revenues have been growing at a rate of more than 10% for each of the past three years. Madrox has a net asset value of £5.1m.

Robinson has said that its 2013 revenues were 11% higher at £23.4m and underlying sales volumes were 8% ahead. WH Ireland previously forecast an unchanged profit of £2.3m in 2014 for Robinson, so if Madrox continues to increase profitability at its previous rate it will provide a significant boost to the enlarged group's profit level. The way that the deal is being funded with existing cash and debt should help to enhance earnings and in the first full year WH Ireland estimates that the earnings uplift "would be in the order of 80-100%". An 80% upgrade in earnings per share would mean the prospective multiple of Robinson shares would be around 12.

ROBINSON (RBN)			212.5p
12 MONTH CHANGE %	+70	MARKET CAP £M	34.8

EKF continues to expand core product revenues

Diagnostics *www.ekfdiagnostics.com*

Diagnostics products developer **EKF Diagnostics** is growing the sales of its core products and it still has not generated a significant contribution from the molecular diagnostics operations, which have enormous long-term potential. However, accounting treatments of the costs of deferred consideration and warranties make it difficult to assess the underlying progress made.

In 2013, revenues improved from £26.1m to £31.8m, with growth coming from all the main geographic markets. Sales of the main products continue to grow. Revenues from the Quo-Lab and Quo-Test glycated haemoglobin test machines jumped 75%, HemoControl haemoglobin test revenues were 42% higher and Biosen C-Line and S-Line glucose and lactate tests were one-fifth higher. The central laboratory business is more mature yet it still grew over the year. EKF made a larger pre-exceptional loss but underlying EBITDA improved from £3.2m to £4.82m.

EKF acquired 360 Genomics in the first half of last year and this forms the base of the molecular diagnostics business, where £950,000 was invested last year. Molecular diagnostics, which involves testing for gene sequences associated with a particular disease, is forecast to be the fastest-growing part of the global diagnostics sector. Molecular diagnostics chief executive Andrew Webb has £200,000 of convertible loan notes that convert into a 20% stake in the division.

Canaccord Genuity forecasts a group profit to £3.8m in 2014. The shares are trading on 28 times prospective earnings.

EKF DIAGNOSTICS (EKF)			36.88p
12 MONTH CHANGE %	+35.3	MARKET CAP £M	100.7

dividends

SQS manages return to dividend increases

Software testing *www.sqs.com*

Dividend

Software testing services provider SQS Software Quality Systems AG has a stated policy of paying out 30% of its underlying profit to shareholders. This means that there has not been a steady progression of dividends because they have varied from year to year as profitability changes. Dividends are paid once a year. A dividend has been paid each year since SQS floated in 2005, although because of a technical accounting problem SQS was not able to pay its initial dividend straightaway and it was combined with the dividend for the following year. The dividend fell to €0.05 a share in 2011 but since then it has been rising. The dividend increased from €0.07 a share to €0.09 a share in 2013.

Westhouse forecasts a 2014 dividend of €0.13 a share, rising to €0.15 a share in 2015.

Business

Germany-based SQS is the largest independent software testing business in the world and its revenues are greater than the combined revenues of the rest of the top ten independents but it is still smaller than the main systems integrators. The greater focus on managed services has helped to boost margins and there is still scope for further improvement.

In 2013, revenues improved from €210.1m to €225.8m, with all the growth coming from managed services. Underlying pre-tax profit rose by one-third to €12.4m. Net debt has fallen by €5m to €2.9m.

Germany accounted for 37% of business and 95% of revenues are still generated in Europe. The US remains a small contributor but there is an opportunity to grow there. The North American testing market is expected to grow by 12% a year in 2014 and 2015. SQS is not currently interested in expanding into South America, Russia or China. These markets are yet to develop demand for outsourced software testing, although China may eventually do this. In terms of sectors, financials, energy and utilities and retail are expected to grow fastest.

SQS is looking for bolt-on acquisitions to help to broaden its geographic base or expand expertise in particular sectors. Now that the US business has built up its operational base this is the primary area where SQS would like to make acquisitions. The acquisition of Indian rival Thinksoft is still being completed and SQS will end up with a majority stake but it will not buy out the minority interests. The results will be consolidated, though.

Westhouse forecasts a 2014 profit of €20m thanks to the initial contribution from Thinksoft. The profit is expected to grow to €23.9m in 2015. The shares are trading on 16 times prospective 2014 earnings. The share price has more than doubled over the past year but the strong position in the software testing market means that SQS is still an attractive long-term investment.

SQS SOFTWARE QUALITY SYSTEMS (SQS)	
Price	562.5p
Market cap £m	171.9
Historical yield	1.3%
Prospective yield	1.9%

Dividend news

Online gaming firm **32Red** is benefiting from strong growth in mobile gaming and it continues to be strongly cash generative. Net cash was £3.4m at the end of 2013. The final dividend is 1p a share and the ex-dividend date is 2 April. The total dividend is 1.8p a share, excluding the special dividend of 2.5p a share paid in August. The yield is more than 2%. Daniel Stewart forecasts a 2014 dividend of 2.2p a share. The profit is forecast to increase from £2.6m to £4.5m even though investment in the new Italian business will hold back profit.

Construction professionals recruiter **Prime People** plans to return surplus cash to investors but it has not decided how much yet. There was £2.76m in the bank at the end of September 2013. Management will not want to pay out all of this cash but there is scope for a significant special dividend. Working capital and money to finance organic growth will be required and the exact amount of the special dividend will be announced later in the year. Prime People paid an unchanged interim dividend of 1p a share and the total annual dividend is 4.09p a share. That provides an annual yield of more than 5%.

Infection control products supplier **Tristel** is rebuilding its dividend and profit following a decline in its endoscope cleaning products operations and rebuilt its animal healthcare business. The dividend peaked at 1.825p a share in 2009-10. The latest interim has been increased from 0.08p a share to 0.36p a share and a full-year dividend of 1.2p a share is forecast, which is more than twice covered by upgraded forecast 2013-14 earnings of 2.6p a share. In the six months to December 2013, revenues improved from £4.4m to £6.44m and Tristel returned to profit.

Expert view: The broker

Staffline sets £1bn revenues target

By GUY HEWETT

Recruitment services provider Staffline's growth aspirations suggest that 95% share price upside, a 5% dividend yield, acquisitions and/or a return of cash to shareholders are all possible within the next two to three years.

Our forecasts assume less aggressive progress but still evidence an excellent investment case. The actual outcome may well fall between the two scenarios, and we hence expect upgrades to continue the group's track record of over-delivery against consensus. We initiate at Buy.

Staffline aspires to grow profits organically by an annual average of 24% to 2017 by continuing to build its UK staffing and Welfare to Work businesses. The group has an excellent track record in delivering strong growth in these markets (five-year historical average annual EPS growth: 34%; 10-year: 36%).

Business

Staffline is a UK blue-collar recruitment specialist for the logistics, e-retail, manufacturing, driving and food-processing industries. The group provides and manages workforces from a network of 220 locations, supplying in excess of 41m hours of temporary labour each year to more than 600 clients.

Since flotation in 2003, Staffline has been on a long-term growth path. Although the recession adversely affected it in 2008 and 2009, the financial impact was much less severe than for the majority of the recruitment sector.

This progress has been achieved by reinvesting operating cash flow into organic growth and bolt-on acquisitions. Since flotation, Staffline has generated £41m of free cash flow, of which £15m has been spent on acquisitions and £9m on dividends. The remaining £17m moved net debt from £12m to net cash of £5m.

The group has a strong track record of living up to expectations and at least hitting consensus estimates.

Outsourcing

Staffline's core offering (76% of 2013 EBITA) is an outsourced recruitment service. Whereas the traditional recruitment model is office-based, filling clients' job requirements when they come in, Staffline's recruitment service (OnSite) is provided by its staff based on the client's premises, working within longer-term agreements to ensure the client's flexible workforce levels are optimised.

Historically, this client base has focused on the food-manufacturing, distribution/retail and manufacturing industries. In April 2011, Staffline acquired EOS, a Welfare to Work service provider, and started work on the coalition government's new Work Programme contract in Solihull, Birmingham and the Black Country in June 2011. Then in October 2011, EOS was awarded two further contracts by the DWP worth £53m over three years. Both contracts are financed by the European Social Fund.

The competition in the Welfare to Work area has historically outsourced the provision of training services and advice to candidates. EOS has built and now runs its own training centres. This enables closer control on the quality of the services provided.

Partnerships have been formed with local employers with staffing requirements to ensure the skills learned give the candidates the best opportunity to secure work. Similarly close relationships have been formed with recruitment companies to ensure job opportunities are maximised, including of course with Staffline's own recruitment operation.

Staffline's aspiration of £1bn sales in 2017 comes from continued growth in the core OnSite recruitment offering business, contract wins in the Welfare to Work area and diversification into new areas such as provision of HGV drivers, training and agriculture and from Ireland, where it is already operating from five OnSites – two food, one logistics and two call centres.

The group had net cash of £5m at the end of 2013 and has converted 85% of the last five years' profit after tax into free cash flow despite the rapid progress. This financial strength will allow dividend growth to at least follow earnings and potentially enable a return of cash to shareholders from 2017, when we expect net cash to be in the £30m-£40m range. Alternatively, at least part of this financial firepower could be invested in further bolt-on acquisitions driving higher growth rates.

With the UK election on the horizon, there is some political risk around the potential award of government contracts, but we view this as simply risk that some upside is removed. Our forecasts assume no major wins.

Our DCF model, which we believe is cautious, envisages 21% share price upside to 870p. However, if the group's aspirations are met, then we see upside of 95% to 1,400p (100p EPS at 14x).

GUY HEWETT is a research director at finnCap.

feature

AIM board pay held back by past uncertainty

AIM finance directors appear to be very good at making sure their pay rises faster than that of other directors of their companies. Median total board pay has declined in the past year despite higher finance director salaries.

There is an image that company directors and top management have awarded themselves large pay increases in recent years when most people have had little or no increase. AIM companies do not appear to generally fit that image, with the median pay of AIM boards falling last year.

Directors Pay on AIM 2014, which has recently been published by Growth Company Investor in association with accountants Crowe Clark Whitehill, provides comprehensive pay information about the vast majority of the companies on AIM. There is also historical information, some of which goes back more than a decade.

The latest publication covers annual reports for year ends between August 2012 and July 2013. This means that the pay packages are likely to have been decided by the companies' remuneration committees when the market was relatively weak and well before the more recent recovery in the FTSE AIM All Share index and junior market liquidity on the back of the inclusion of AIM shares in Individual Savings Accounts.

The median pay of AIM boards fell in the latest report, from £484,545 to £464,068, and it is well below the level recorded in the 2012 report, which, at £496,500, was the highest figure recorded in any year. The median number of directors of AIM companies continues to be around six so this is not a question of a reduction in the number of board members.

The number of boards that earn more than £1m a year has risen from 158 to 172, which is equivalent to 17.6% of the companies in the survey.

Chief execs

Chief executive pay appears flat according to the report, whether measured in terms of basic pay or total pay including bonuses and incentives. Just short of half of the chief executives earned the same or less than the previous year.

FDs

One group of directors that has continued to do well is finance directors. The ratio of median chief executives' pay to finance directors' pay has fallen from 1.46:1 to 1.35:1 over the past decade. While chief executive pay has been flat there was a median increase of 3.4% in finance director pay. That is the lowest increase in the past four years. There were 57% of finance directors that earned more than the previous year.

In the 2010 report, finance directors accounted for 21.6% of total board pay and this has risen to 24.3%.

> The median pay of AIM boards fell in the latest report

The gap between the median chief executive pay at profitable companies and pay at loss-making companies has widened significantly. The median pay of chief executives of profitable AIM companies has grown from £228,596 to £249,044, while in the case of loss-making companies it has declined from £187,816 to £178,921.

There are 16 chief executives earning more than £1m a year, although only two had a basic salary of more than £1m, and 112 earning more than £500,000 a year. Despite the flat pay last year chief executive pay as a percentage of total board pay has risen from 41.6% to 43.1%. Interestingly, although the median pay for chief executives has not risen as fast as that for finance directors the percentage of the board pay they account for has jumped from 36% to 43.1% over the same period.

Just like with chief executives, the difference in finance director pay between profitable and loss-making companies has widened. The median pay of finance directors of profitable companies improved from £158,000 to £175,719, while at loss-making companies it has dropped from £135,202 to £127,837.

Gulf Keystone Petroleum, Scottish football club Rangers International and online gaming operator GVC

feature

Holdings have finance directors in the top ten finance director earners as well as chief executives in the top ten pay table.

The finance directors of oil and gas explorer Petroceltic, internet monitoring firm Phorm and health-related digital marketing services provider Totally all earn more than their chief executives. In fact, the Totally finance director earns nearly all the total board pay.

Bonuses

Legislation is forcing fully listed companies to provide additional directors' remuneration information. It will be interesting to see whether some AIM companies comply with these requirements even though they do not have to. An example of these requirements is the disclosure of the maximum, minimum and expected bonus payments.

The bonuses paid to chief executives in the latest survey totalled £36.1m or 6% of total board pay. Gulf Keystone Petroleum boss Todd Kozel received £2.78m of his £8.38m remuneration in the form of a bonus, which on its own was around one-fifth of total board pay of the Kurdistan-focused oil and gas explorer. The majority of his pay was in the form of share-based payments.

Some of the highest-paid chief executives received the majority of their pay in the form of bonuses. These include the bosses of online payments services provider Optimal Payments, machine-to-machine technology developer Telit Communications and GVC.

Information on bonuses can vary. In GVC's readmission document following the move of the head office to the Isle of Man in 2010 it was stated that chief executive Kenneth Alexander was entitled to a salary of £500,000 a year plus health and life insurance. The document states: "The eligibility of each executive director to participate in bonus schemes will be set by the remuneration committee in its sole discretion. In addition, the remuneration committee has discretion to award the executive directors additional bonuses".

By the beginning of 2013, when the readmission document for the acquisition of Sportingbet was published, Alexander's salary had increased to £700,000 a year plus health and life insurance – this is the salary payable the year after the one used in the survey, suggesting a pay rise of nearly 16%. (The salaries are stated in pounds although in the accounts they are expressed in euros.) The wording of the paragraph on bonus schemes was the same except for the addition of GVC before executive directors.

There is more information on the bonus in the accounts, which says that it is based on the annual dividend that would have been received on the executives' unexercised share options.

The bonus of Oozi Cats, the chief executive of Telit Communications, is based on 5% of the company's adjusted EBITDA. However, according to the financial highlights in the Telit annual report, adjusted EBITDA increased from $13.1m to $17.3m. Yet, the 2012 bonus was $1.52m, which is a lot more than 5% of EBITDA in either year. So, even though there is a description of the bonus in the accounts it is not clear enough to explain the size of the whole bonus. There is a general reference to a discretionary bonus scheme operated by the company so presumably this provides an additional bonus to Cats.

Joel Leonoff, the chief executive of online payments company Optimal Payments, has two elements to his bonus: a cash bonus and "an annual equity-based incentive award". The normal cash bonus limit is described as 100% of the chief executive's basic salary but more can be awarded for "exceptional performance" – the latest figure was 105% of basic salary. However, the previous year it was 87%.The other two-thirds of the £962,100 bonus comes from the equity-based incentive.

The amount of information available on pay and bonuses has increased significantly over the period that these surveys have been done and any additional information will help investors to understand why the directors have been paid the level of salaries that they have been.

> Just short of half of the chief executives earned the same or less than the previous year

AIM DIRECTORS PAY

YEAR SURVEY PUBLISHED	MEDIAN CHIEF EXEC PAY (£)	MEDIAN FD PAY (£)	MEDIAN BOARD PAY (£)
2014	202,000	149,839	464,068
2013	202,498	147,000	484,545
2012	200,352	143,542	496,500
2011	190,300	139,000	460,670
2010	190,000	133,363	490,042
2009	175,000	124,516	431,000
2008	160,943	108,746	412,023
2007	147,223	100,546	390,227
2006	115,636	90,000	311,300
2005	123,000	86,150	308,000
2004	124,000	85,000	322,500

statistics

Market Performance, Indices and Statistics

AIM SECTOR INFORMATION

SECTOR NAME	% OF MARKET CAP	% OF COMPANIES
Oil & gas	16.3	12.1
Financials	19.6	19.6
Consumer services	14.5	9.7
Industrials	13	17.7
Technology	12.2	10.3
Basic materials	7.1	16.6
Consumer goods	6.4	5.5
Health care	6.5	6
Telecoms	2.8	1.3
Utilities	1.5	1.4

FTSE INDICES

ONE-YEAR CHANGES

INDEX	PRICE	% CHANGE
FTSE AIM All-Share	892.91	+20.5
FTSE AIM 50	4876.23	+45.9
FTSE AIM 100	4078.27	+23.8
FTSE Fledgling	6860.93	+31.2
FTSE Small Cap	4597.14	+22.9
FTSE All-Share	3666.66	+9.5
FTSE 100	6809.7	+7.1

COMPANIES BY MARKET CAP

MARKET CAP	NO.
Under £5m	225
£5m-£10m	151
£10m-£25m	218
£25m-£50m	178
£50m-£100m	129
£100m-£250m	125
£250m+	61

KEY AIM STATISTICS

Total number of AIM	1087
Number of nominated advisers	46
Number of market makers	52
Total market cap for all AIM	£77.9bn
Total of new money raised	£84.3bn
Total raised by new issues	£37bn
Total raised by secondary issues	£47.4bn
Share turnover value (2014)	£4.6bn
Number of bargains (2014)	0.58m
Shares traded (2014)	31.6bn
Transfers to the official list	164

TOP 5 RISERS OVER 30 DAYS

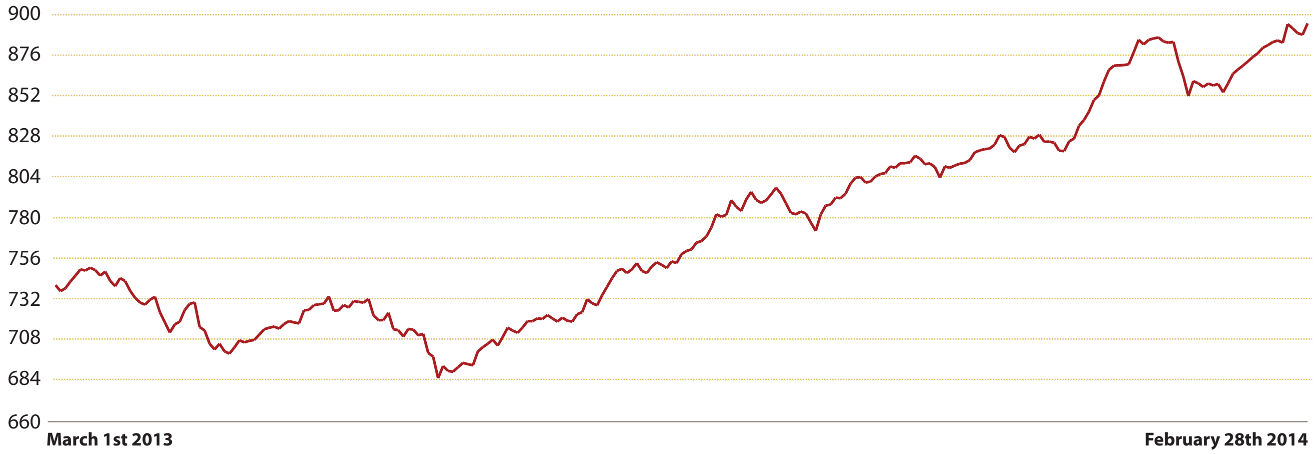
COMPANY NAME	SECTOR	PRICE (p)	CHANGE (%)
Snoozebox Holdings	Hotels	17.5	+145.6
Arian Silver	Mining	52	+108
Plus500	Financials	535	+91.4
Flowgroup	Cleantech	29.5	+87.3
Savannah Resources	Mining	10.75	+87

TOP 5 FALLERS OVER 30 DAYS

COMPANY NAME	SECTOR	PRICE (p)	CHANGE (%)
Greatland Gold	Mining	0.51	-43.3
Blinkx	Technology	100.75	-42.6
SnackTime	Retail	10.75	-41.9
Tricorn Group	Engineering	20	-38.9
Rurelec	Electricity	8.38	-36.8

AIM - 1 YEAR INDEX CHANGE

Source: London Stock Exchange



Data: Hubinvest Please note - All share prices are the closing prices on the 28th February 2014, and we cannot accept responsibility for their accuracy.

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In 2013, finnCap commenced market making and launched fAN Club, a new offering aimed at providing specialist support to ambitious small private businesses seeking pre-IPO funding.

finnCap was presented with the Best Research award at the 2012 AIM Awards, while finnCap's corporate broking and sales trading teams have achieved Extel Top 10 rankings for three years running. finnCap is a sponsor of the AIM Awards, the plc Awards and the UK tech Awards.

In the six months to October 2013, finnCap reported a 22% jump in revenues to £6.9m and operating profit was 74% higher at £1.9m. The finnCap 40 Mining index, finnCap 40 E&P index and finnCap 40 Tech index were launched in 2014.

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ADDRESS:	1C Beaufort Road, Kingston-upon-Thames, Surrey. KT1 2TH.	**EDITOR:**	Andrew Hore
		DATA:	Andrew Hore
TELEPHONE:	020 8549 4253	**PRODUCTION & DESIGN:**	David Piddington

SPONSORSHIP & ADVERTISING editor@aimmicro.com or telephone 020 8549 4253